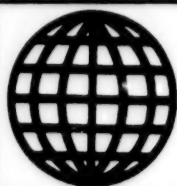


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**FOREIGN
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JPRS Report

China

22 JULY 1987

CHINA

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POLITICAL

USSR: PRC JOURNAL CITED ON JAPANESE MILITARY BUILDUP

PM111547 Moscow KRASNAYA ZVEZDA in Russian 6 Jun 87 First Edition p 5

[TASS report: "Condemnation of Japanese Militarization"]

[Text] Beijing, 5 Jun—The buildup of Japanese armed forces is causing justified alarm in the PRC and other countries of the Asian-Pacific region, where everything associated with Japanese militarism during World War II has not been forgotten. This is pointed out, in particular, by an article and other materials in the Chinese journal SHIZE ZHISHI. It is noted that since the beginning of the eighties Japanese military expenditure has increased on average by 6.7 percent per year, with a marked reduction in budget appropriations for the purposes of developing education and culture and public welfare.

SHIZE ZHISHI pointed out certain statistical manipulations that Tokyo resorts to in order to conceal the actual size of annual military appropriations. For instance, when totaling up Japanese military expenditure they apparently "do not take into account" the financial benefits given to officers and other servicemen during service. If one used the method of calculating military appropriations used in the NATO countries, the journal notes, Japan would be number two in the capitalist world in terms of total military expenditure (33.67 billion dollars), second only to the United States and way ahead of Britain, France, the FRG, Italy, and other countries.

Although the Japanese Army is not that big in numerical terms, the article says, its characteristic feature is the large number of officers compared with men, which means that rapid large-scale deployment can be carried out if necessary.

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CSO: 4005/821

CZECHOSLOVAKIAN PARTY HAILS ZHAO ZIYANG VISIT

OW180548 Beijing XINHUA in English 0535 GMT 18 Jun 87

[Text] Prague, June 17 (XINHUA)--Czechoslovakia today called for comprehensive relations with China on the basis of equality and mutual respect.

The call was made by the Presidium of the Central Committee of the Communist Party of Czechoslovakia which lauded Chinese leader Zhao Ziyang's official visit to the country.

A communique from the Presidium stressed the importance of long-term cooperation with China on economic, scientific and technological matters.

It is of importance to the cooperation with China on the international stage, particularly in halting arms race, disarmament, and enhancing international security, the communique said. [sentence as received]

Zhao, invited by Czechoslovak Communist Party General Secretary Gustav Husak and Premier Lubomir Strougal, is the highest ranking Chinese Communist Party and government leader to visit Czechoslovakia since 1949 when the two countries set up diplomatic ties.

Zhao, acting general secretary of the Chinese Communist Party and premier of the State Council, is on an official visit to five eastern European nations since early June. His 18-day official tour takes him to Poland, Democratic Germany, Czechoslovakia, Hungary and Bulgaria.

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CSO: 4005/821

UNITED FRONT ROLE IN BUILDING SOCIALISM

HK130641 Beijing QUNYAN in Chinese No 3, 7 May 87 pp 12-13, 17

[Article by Ren Tao [0117 3447]: "Socialist Democracy and the United Front"]

[Text] A high degree of socialist democracy is an important content of socialism which adds both a systematic and a legal nature to the politics of socialist democracy. Thus it is an important feature in building China into a modern and strong socialist nation marked by Chinese characteristics, as well as one of the basic goals and tasks of the CPC. The basic principle of socialism is that people are the masters, and that the vigorous creativeness of the masses is the source of establishing and developing socialism. Therefore, socialism and democracy are linked to each other. Democracy is a form of a nation as well as the basic political system of socialism, rather than a kind of means. There will be no socialism without democracy and democracy will be further developed only when socialism is further developed. Moreover, socialist democracy is a major guarantee for building socialist material civilization. No developed socialism will emerge without a high level of democracy. Only when we carry forward socialist democracy, achieve democratic administration, strengthen people's sense of responsibility of being the master of their own affairs, and fully mobilize their initiative and creativeness, can we assure the stability of the development of socialist undertakings, and can people's wishes and interests be met. Furthermore, only thus can we maintain a long-term stable society. The CPC Central Committee advocated "to develop political democracy, and to carry out economic reforms" as the two most important internal policies. This requires us economically to decentralize the decision-making power and to greatly develop the socialist commodity economy; and politically, to promote democracy and practice democratic politics, in order to conform to the needs for building the socialist economy and developing the socialist commodity economy. During the new historical period the United Front, a superb magic weapon of the CPC, has played a very significant role in strengthening the construction of socialist democracy.

First of all, the United Front and democracy are closely linked together. The comprehensive development of the United Front symbolizes, in itself, the process of carrying forward the people's democracy. The patriotic United Front has, during the new period, developed on a large scale. It

includes two domains: One is an alliance which takes socialism as the political base, and which is composed of all laborers and patriots across mainland China; and the other is an alliance which regards support for the reunification of the motherland as the political base, and which is composed of tens of millions of united compatriots from Taiwan, and Hong Kong, Macao and overseas. To handle well the United Front work concerning these two domains, to fully mobilize the United Front's role in linking and coordinating the two, as well as to make Marxists and non-Marxists, laborers and patriots, atheists and theists unite together are the important contents of the construction of socialist democracy. Judging from the scope of mainland China the United Front has actually become an alliance of the CPC and other parties, as well as non-party personages. It is the basic power of the patriotic United Front. The consolidation and development of this alliance must be based on a comprehensive people's democracy. If the democratic rights of all democratic parties and non-party personages are not given the proper respect, or their enthusiastic participation is absent, the patriotic United Front will inevitably become empty talk and it will become impossible to smoothly develop the socialist cause. Proceeding from the viewpoint of developing United Front work overseas, it further shows the necessity of carrying forward democracy within the patriotic United Front, and the need to coordinate the interest relationship among all classes, strata and groups. Thus, people will work, study and live at their posts in a good mood. Only then can it produce a good effect on compatriots in Taiwan, Hong Kong and Macao, as well as compatriots residing overseas; develop a gigantic force of unity; and promote the peaceful reunification of the motherland.

Second, the cooperation among various parties under the leadership of the CPC is an important feature and advantage of China's socialist political system, as well as a significant component of China's democratic construction. The various democratic parties within China, under the leadership of the CPC, are political parties which share the work concerning the state regime, take part in government work and make concerted efforts in undertaking the socialist cause. These democratic parties are linked to and represent quite a number of people. They take part in the administration of state affairs, in political consultations, and in mutual supervision with the CPC. This has therefore manifested the exercise of power by the people to supervise the country, as well as the power of the people's democracy. At the same time, this also helps the CPC to listen to various viewpoints, to understand people's thinking, to overcome bureaucratism and unhealthy tendencies, and to correct imperfections and mistakes in its work. But it is a pity that for quite a long time following the fundamental accomplishment of the socialist transformation, the cooperation among various parties under the CPC leadership experienced a winding course of development as a result of the long-term interference from "leftist" thinking, in addition to the adoption of the conventional political modes of waging revolutionary wars and mass movements and conforming to the needs of a highly centralized planned economy. An important mistake made at that time was failing to switch the focus of the state's work to economic construction. Also, we made another mistake when we neglected the political construction of democracy as well as the construction of a cooperation system among various parties under the CPC leadership.

At that time, China had just accomplished its socialist transformation and the CPC solemnly put forward the principle of "long-term coexistence and mutual supervision" among various democratic parties. This was a principle for carrying forward socialist democracy, as well as one for mobilizing all positive factors to serve socialism. It was solely because of this principle and the concurrent principle of "letting a hundred flowers blossom and a hundred schools of thought contend" that China's political life was filled with a lively political atmosphere. At that time any state affair was first reported to the responsible people of various parties and nonparty personages for consultation or the solicitation of opinions. The forms of consultation included the Supreme State Council, forums and biweekly forums of democratic party leaders, and so on. A number of non-party personages assumed government and administrative organization offices at various levels. The state's democratic channels were relatively unblocked. The democratic activities were quite normal and the CPC organizations at various levels were able to frequently listen to the opinions of non-party personages and to place themselves under the people's supervision. However, the 1957 "anti-rightist struggle" started before long. The past political movements often expanded the problems of a few people into nationwide serious struggles, and took a large quantity of internal contradictions among people as contradictions between ourselves and the enemy. This thus greatly dampened socialist democracy. A number of democratic party members and non-party personages were mistakenly regarded as rightists. Most of their opinions were criticized. In addition, democratic parties, which had already switched their political force to the work of serving socialism, were regarded as "bourgeois political parties." The principle of "long-term coexistence and mutual supervision" was actually no longer brought up again though it was not recalled. During the 10 years of turmoil, socialist democracy was further undermined. Many comrades were cruelly persecuted. The activities of democratic parties were also suspended. The situation was not corrected until the 3d Plenary Session of the 11th CPC Central Committee. Afterward, the cooperation system among various parties was restored and we gradually took the correct development trend. In 1982 the 12th CPC Congress expanded the principle of "long-term coexistence and mutual supervision" to one of "long-term coexistence, mutual supervision, treating each other with all sincerity and sharing weal and woe." Furthermore, it adopted many policies and measures, respected democratic parties' political freedoms within the limits of rights and obligations entrusted by the Constitution, their independence and legal status of equality, allowed these parties to exist and supported them to independently carry out their activities; strengthened political consultations with these parties; and utilized their role of democratic supervision. Over the years these parties have been participating actively in the consultation and decision making of national affairs, carried out work to serve the four modernizations in various fields, and started their activities of communicating with overseas Chinese. They have therefore developed a new realm, taken a new road and made new contributions in the work of serving the modernizations.

Our experience in revolution and construction over the decades has fully manifested that democratic parties deserve the name of comrade-in-arms who shared weal and woe with the party. The relationship between the CPC and these parties depends on the four basic principles, as well as the new

friendly party relations of making joint efforts in undertaking the socialist cause. The principle of "long-term coexistence, mutual supervision, treating each other with all sincerity and sharing weal and woe" is precisely a lively manifestation of this new political system among various parties, as well as an inherent requirement of socialist democracy. The principle has perfected the cooperation among these parties under the CPC leadership and has further given prominence to the role of the United Front in the construction of socialist democracy. That the new patriotic United Front was able to be quickly restored and developed within years, and that today's China developed such a united and lively good situation are inseparable from the vigorous implementation of this principle by the CPC.

China's present political environment is developing toward the direction of harmony. Conforming to the economic structural reform, reforms of the political structure have already been included into the daily agenda. In the final analysis, China's reform of the political structure is to make the politics of socialist democracy become systematic and legalized. Proceeding from a long-term viewpoint, this means that through reforms, we must build a highly democratic, legally perfect and efficient political structure. On the other hand, to perfect the cooperation system among parties, and to further give play to the positive roles of the CPPCC and democratic parties in China's political activities are the important contents of our reform of the political structure. This is not only because perfecting the cooperation system among parties is an obligation to carry forward the people's democracy, but also because this reflects the civilization and advancement of society. This is also because the CPC, being the ruling party, needs powerful supervision, which includes both supervision within the party and supervision by democratic parties and non-party personages, to maintain an open democratic channel for reflecting and respecting people's opinions. Under the circumstances of promoting the implementation of "one country, two systems," perfecting the cooperation system among parties is of particular practical significance.

In order to develop and perfect the cooperation system among parties we must draw lessons from our past experience. On the basis of summarizing our experiences and carrying out investigations, we should propose practical specific systems and corresponding measures so that the work of democratic consultation and democratic supervision will become regular, systematic and legalized. Then we can ensure that the democratic parties, mass organizations of the United Front in nature and non-party personages will become more active in participating in the decision making of state affairs. They will play better their roles in participating in policies, democratic supervision, consultation and united masses. Therefore, they will have open access to the decision making bodies at various levels in terms of expressing their opinions and suggestions on major issues concerning the state's political, economic and social affairs.

In short, to build a high degree of socialist democracy is an objective requirement as well as inevitable in the development of socialist society. The United Front plays a very important role in building socialist democracy. To consolidate and expand the work concerning the United Front carries in itself the important contents of carrying forward socialist democracy. The United Front and democracy are inseparable. There will be no United Front without democracy. In the wake of political developments in China's democracy, China's cooperation system among parties will be more perfect. Consequently, the patriotic United Front will radiate more perfect glamour in building a socialist political system marked with Chinese characteristics.

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CSO: 4005/821

JIEFANGJUN BAO UPHOLDS GUIDING POSITION OF MARXISM

HK230914 Beijing JIEFANGJUN BAO in Chinese 26 May 87 p 3

[Article by Wang Qinghai [3769 3237 3189] and Zong Xusheng [1350 4872 4141]:
"The Guiding Position of Marxism Is the Choice of History"]

[Text] Adherence to the guidance of Marxism is the summary of the experiences of our nation's revolution and construction. It is an unshakable basic principle of our party and state. Fang Lizhi and other people have spread statements like "Marxism is just one of the philosophies" and attacked it, saying: Taking Marxism as guidance can only result in mistaken conclusions and "it has never achieved positive results." This basically negates the guiding position of Marxism and must be rebutted.

Actually, the guiding position of Marxism is not self-proclaimed but has been established in practice through close to one and a half centuries of historical examination. It is universally recognized that when Marxism had just been established, it was indeed only "one of the countless socialist factions and ideological trends." ("Selected Works of Lenin," Vol 2 p 437) At that time, there were innumerable theories and doctrines of multifarious names. Proudhonism, Bakuninism and Lasallism all created a stir in the workers movement for a time. However, following the passage of time and the examination of practice, some declined in their influence while others disappeared from the scene. Only Marxism, with its unassailable correctness and scientific nature showed itself to be superior, triumphed over all other ideological systems in the workers movement, and became the guiding ideology universally accepted by the international communist movement. It became the banner under which the proletariat and the laboring people strived for victory. In the last nearly one and a half centuries, Marxism has deeply changed and continues to change the face of the world. From the first red flag of proletarian dictatorship raised in the 1871 Paris commune, to the triumphant song of the Russian Great October Socialist Revolution in 1917; from the establishment of the PRC in 1949 to the development of socialism in the whole world today; all of these things vividly show that history develops in accordance with the general objectives pointed out by Marxism.

The reason Marxism has this great power, and the reason it was able to replace the various schools of thought and take the leading position is because it correctly and scientifically reveals the internal nature and laws of development of the objective world. Marxist philosophy scientifically reveals the most general laws of natural, social and ideological development Marxist

political economics reveals the general laws of the development of the social relations of production. Marxist socialist theory scientifically reveals the nature and conditions of the proletarian movement and to general results thus produced, and also shows the overall direction and general trends in man's social development. It can be said that up to this time, the world has never had a theory which provides such a deep and overall correct explanation for the past, present and future development of man's society. Lenin said: "The reason Marxist theory is universally applicable is because it is correct, extremely complete, and well arranged. It provides people with a complete world view which does not defend or compromise any superstition, any reactionary force, or any bourgeois oppression." ("Selected Works of Lenin," Vol 2 p 441) Marxism is different from the slanted and narrow doctrines. It is the essence of the entire riches created by mankind, and the continuation and development of the outstanding cultural legacies of mankind. In "Tasks of the Youth League" Lenin said: "If you want to ask why the doctrine of Marxism is able to control the hearts of tens of millions of people of the most revolutionary class, you can only find one answer. It is because... everything which has been created by human society, he investigated with a critical attitude and absolutely nothing was overlooked. Everything which had been established in human thought, he explored anew and criticized, and examined in the worker's movement. Thus conclusions were realized which could not be achieved by people restricted by the narrow nature of the bourgeoisie or fettered by bourgeois prejudices." ("Selected Works of Lenin," Vol 4 p 347)

Marxism is also an ideological system which continually develops and is full of vigor. It has an eternal, unlimited life force. Naturally, individual formulas and concrete conclusions must change with the passage of time, and these will be replaced by new formulas and new conclusions which accord with the new historical situation and tasks. However, the world view, basic principles and basic methods it provides are "universally valid things" (Mao Zedong) and will never be outdated. As long as we do not take it as dogma, but as a guide for action, and do not rigidly adhere to individual words and expressions, thereby ossifying it, but develop it in the light of revolutionary practice, Marxism will maintain the vitality of youth. The history of the development of Marxism over the last 100-plus years fully proves this point.

The establishment of the guiding position of Marxism is also the correct choice of the Chinese people over a long period of revolutionary struggle and their personal experiences. After the Opium War in 1840, many advanced persons in our country, in order to save the country and make it strong, sought truths in the eight directions to save the country and save the people. All sorts of ideological trends swept into China like a tide. Some advocated "saving the country through education" or "saving the country through industry," some advocated "complete Westernization" and travelling a U.S.-type road, while still others spread anarchism, social democracy and Russellism. However, faced with the rigorous judge of practice, regardless of whether it was the egalitarianism of the Chinese peasant class

where "fields are ploughed together and food is eaten together" or the reformism or democracy of the bourgeoisie, none of them had the power to lead the Chinese people in thoroughly throwing off the yoke of semi-colonialism and semi-feudalism. The Chinese people went through great hardships and paid a high price. It was only when the sound of the guns of the October Revolution brought Marxism to us that the Chinese revolution came onto the correct track. Under the guidance of Marxism the CPC members, represented by Mao Zedong, proceeding from our nation's concrete reality, successively resolved the problem of leadership in the Chinese democratic revolution and the problem of an allied force, found the correct road to implementing land reform, using the villages to surround the cities and using the armed forces to seize political power. They set down the correct program, policies and strategies of the new democratic revolution and brought a change of great historical significance to the Chinese revolution. Over a period of 28 years, victory was achieved in the new democratic revolution and during the revolution a Sinocized Marxism was established--Mao Zedong Thought. After the founding of the PRC, our party in accordance with basic Marxist principles, correctly analyzed the political and economic conditions necessary for socialist transition, adopted correct policies and principles and victoriously carried out the socialist transformation of the system of private ownership of the means of production and established a brand new socialist system in China. Also, on this basis, large-scale economic construction was undertaken, allowing our nation's political, economic and cultural undertakings to experience a historically unprecedented rate of development. In the 30-plus years since the founding of the PRC, our party has also made some mistakes, including serious mistakes like the "cultural revolution." However, the cause of these mistakes was not in our adherence to Marxism, but precisely the opposite. They were the result of our divorcing ourselves from the correct guidance of Marxism. After the 3d Plenary Session of the 11th CPC Central Committee, because our party adhered to the correct guidance of Marxism, the task of bringing order out of chaos was completed, and the socialist cause entered a new historical period. This history and these realities obvious to all and indisputable fully show that if we adhere to Marxism, our cause will achieve success; if we divorce ourselves from Marxism's guidance, we will inevitably end up with erroneous conclusions which will result in the failure of our cause. At present, we are engaged in the great project of building socialism with Chinese characteristics. This is an unprecedentedly arduous and complex undertaking of construction and we cannot avoid meeting a series of new situations and new problems. As Comrade Deng Xiaoping stressed: "This, even more, requires that we gear ourselves to the new reality and master the basic theories of Marxism." ("Building Socialist With Chinese Characteristics," revised edition, p 127) Only in this way can we find correct answers to the new questions and thus enrich and develop Marxism.

Adherence to the guidance of Marxism is a conclusion which is not open to doubt and a conclusion which has been realized by China through over 100 years of history. It is an extremely valuable historical experience which our party

and people have obtained through extremely arduous struggles. We have solemnly written adherence to the guidance of Marxism into the party Constitution and placed it in the state Constitution. This reflects the demands of the revolutionary cause and the aspirations of the vast masses of people. Both now and in the future, we must throughout persist in adherence to this principle. Fang Lizhi and the other people have not looked at history and reality and have negated the guiding role of Marxism. This is a brutal trampling of the history of the Chinese people's revolution and construction. It is also a serious violation of the party Constitution and the state Constitution. It is natural that this meets the opposition of the people.

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CSO: 4005/821

MING PAO: PRC INTERNAL JOURNAL CALLS FOR YOUNGER LEADING GROUPS

HK081201 Hong Kong MING PAO in Chinese 8 Jun 87 p 13

["Special Dispatch" from Beijing: "CPC Organization Departments Stress Preventing Aging of Leadership Groups Younger Cadres Should Fill Major Leading Posts"]

[Text] The CPC organization departments have recently stressed that in the days to come, in selecting leading cadres, we should gradually reduce the average age of members of the leading bodies at various levels and prevent the aging of leadership groups from recurring while upholding the prerequisite of being revolutionary.

An article carried by ZUGONG TONGXUN [ORGANIZATION WORK JOURNAL], a restricted magazine, pointed out: The building of the contingent of cadres with "four qualifications" is a huge project. What we have done over the last few years, from a long-term point of view, serves to lay a foundation but we still have a long way to go in this respect. Therefore, we should continue to work hard.

This instructive article representing the ideas of the CPC Central Committee Organization Department said: To achieve the "four transformations of cadres," it is imperative to uphold the prerequisite of being revolutionary. At present particular attention should be paid to selecting and making use of those outstanding cadres who are capable of upholding the four basic principles and adhering to the policy of reform, opening up to the outside world, and invigorating the domestic economy. At the same time, we should ensure that our cadres gradually become younger in average age and more knowledgeable and specialized while upholding the prerequisite of being revolutionary.

The article stressed: In making members of leading bodies at all levels younger in average age in the years ahead, we should pay attention to the combination of old, middle-aged, and young cadres and the ladder-shaped age structure in regard to the formation of leading bodies at all levels and refrain from requiring an average age. A leading body should be composed of cadres with different age levels rather than cadres of the same age. It is necessary to retain one or two veteran cadres who are politically sound and have rich experience and relatively high prestige in a leading body but they should not necessarily hold the top position. Younger cadres should fill major leading posts. The ages of members of leading bodies at various levels

should not be mechanically reduced level after level down. We should not demand that members of the leading bodies at the lower level be younger than those of the leading bodies at the higher level. While promoting the formation and preservation of a rational age structure and preventing aging of leadership groups from recurring, we should allow a cross section of ages among some members of the lower and higher-level leading bodies.

Observers here hold that the ZUGONG GONGXUN article is "giving signal. in advance" to the organization departments at all levels on behalf of the CPC Central Committee Organization Department, from which one can see the general idea of the organizational line of the "13th National Congress" of the CPC. According to their estimates, during the congress, large numbers of old and infirm, important officials will withdraw from the CPC Central committee and the army but some will stay on. This is a major move Deng Xiaoping has prepared and planned for a long time.

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CSO: 4005/805

MINISTRY ISSUES CIRCULAR ON DISASTER RELIEF WORK

OWL70855 Beijing XINHUA Domestic Service in Chinese 1210 GMT 16 Jun 87

[Excerpts] Beijing, 16 Jun (XINHUA)—The Ministry of Civil Affairs recently issued a circular urging local civil affairs departments to earnestly study and implement the guidelines of the State Council decision on handling the extraordinary forest fire in Daxinganling, resolutely overcome the bureaucratic style of work, and improve disaster relief work in the future.

The circular says: According to weather departments' forecasts, the weather in our country is unusual this year; serious floods and other natural disasters may occur in some parts of the nation. We must maintain sharp vigilance, concentrate on prevention and providing relief, and do our best to minimize the losses caused by natural disasters to the state and people.

The circular points out: We must be fully aware that the fundamental guideline of the State Council decision is to oppose bureaucratic practices in our work, especially bureaucratic practices of leading cadres. We should study the decision in connection with the actual conditions of our work and attitudes and be aware of the fact that many problems in our past relief work were caused by the bureaucratic leadership style. Through study we should accept the lessons learned from the bitter experience of the Daxinganling fire; keep sharp vigilance at all times; do our best to overcome the bad bureaucratic habit of taking no responsibility and acting like an overlord; and firmly bear in mind the guiding ideology of wholeheartedly serving the people and production in disaster areas.

The circular points out: Having timely, accurate information on the disaster situation is a key to overcoming bureaucratic practices and making correct decisions on providing relief. Now that we have entered the high-water season, people's governments at all levels in areas along the major rivers liable to natural disasters must immediately set up fast and efficient information systems and form a network so that important information on the occurrence of natural disasters, the extent of damage, the situation of people in disaster areas, relief measures, and other problems can be transmitted promptly. In reporting on the disaster situation, we must seek truth from facts. With regard to serious disasters, we must visit the disaster area to investigate and verify the situation. We must firmly oppose the erroneous practice of exaggerating or underestimating at will the disaster situation and ensure that disaster information is true and reliable.

The circular points out: We must extensively mobilize all sectors of society to help people in disaster areas solve their problems in livelihood and production and promote the recovery and development of disaster areas.

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CSO: 4005/821

RENMIN RIBAO ON 'INITIAL STAGE OF SOCIALISM'

HK220754 Beijing RENMIN RIBAO in Chinese 19 Jun 87 p 5

[Article by He Jiacheng [0149 1367 2052], Zhang Xuejun [1728 1331 6511], Bian Yongzhuang [6708 0516 1104], and Zhang Xiaoming [1728 2556 2494]: "A Probe Into Some Questions Concerning the Initial Stage of Socialism in Our Country"]

[Text] First, in Order to Build Socialism With Chinese Characteristics, We Must Seek Truth From Facts, Handle All Issues in Light of the Basic Economic Relations, and Expound the Historical Development Stage Our Society Is Undergoing in a Scientific Way

Since the 3d Plenary Session of the 11th CPC Central Committee, the economic structural reform in our country has made great achievements. The economic reform has not only developed productive forces, but has also brought about a series of social reforms in the political, cultural, education, and scientific and technological systems, thus further consolidating the socialist system in our country. The last 8 years marked the best period in our socialist economic and political development since the founding of the People's Republic.

However, from the very beginning, the structural reform encountered all kinds of obstacles and many unexpected difficulties. The fundamental obstacles did not come from the design of reform schemes, the selection of reform strategies, or their implementation, but came from various confused ideas, outmoded and extreme viewpoints, and particularly the vagueness of the basic theory for reform.

Each success in the cause of the proletariat requires the guidance of great theory. This was the case in the victory of the Soviet October Revolution and the victory of China's new democratic revolution. Our reform is a great practice of consolidating and developing the socialist system, so its success also needs the comprehensive guidance of some correct theory. In such theory, the scientific exposition of the current stage in our country's historical development is not only the foundation for our present efforts to implement the four cardinal principles and to carry out the policy for reform, opening up, and economic invigoration, but is also a necessary premise for building socialism with Chinese characteristics in our country.

The theory about the development stages of socialism comprises two inter-related aspects: First, what should socialism be? And second, what is the sole correct socialist practice at present? Today, in order to ensure the smooth development of the socialist practice and to make it gradually mature, we must have a realistic attitude and make scientific exploration on the second theoretical question on the basis of our basic economic relations.

Marx and Engels scientifically divided communism into two stages. They held that the initial stage is socialism and the advanced stage is communism. Their principled idea of dividing communism into stages is now still of guiding significance. However, due to the limitation of historical conditions, they did not and could not give a more concrete description of socialist society and the characteristics of this development stage.

The October Revolution started the practice of socialist construction and created the objective conditions for studying the concrete form of socialism. Lenin was the first person to deal with the two basic questions of socialism. However, because the socialist practice had just begun, Lenin could not complete the task of establishing a theory about the socialist development stage due to the objective conditions.

Socialist practice has since been continuously enriched. In particular, the reform practice has provided a more extensive and reliable foundation for the establishment of the theory about the socialist development stage. However, there are still some errors and confused concepts in people's understanding of the socialist development stage. An important reason for this is that we have not constantly adhered to the principle of seeking truth from facts and making concrete analysis of concrete conditions, which is the essence of Marxist methodology, and have not taken the socialist economic relations in practice as the starting point for all theory. Therefore, we have not yet given a positive answer to the question of the concrete form of socialism in the current stage.

In our exploration today, we must particularly overcome the following defects in our methodology: 1) Proceeding from some abstract definitions in a dogmatic manner, mechanically applying the Marxism founders' vision of the socialist development stage, or rigidly sticking to some specific viewpoints of the founders of Marxism to frame our socialist practice; 2) only paying attention to the experience of other socialist countries and mechanically copying their practice and theory to deduce the socialist development stage in our country; 3) improperly proceeding from the practical experience before the victory of the socialist revolution, and ascribing the characteristics of the socialist development stage completely to the historical conditions; and 4) proceeding merely from the developmental level of the productive forces in the present stage, or generally ascribing the low developmental level to the conditions of productive forces, or simply regarding the productive forces as the per capita output and income, thus determining the socialist development stage.

After the 3d Plenary Session of the 11th CPC Central Committee, our party realized that our country remains in the initial stage of socialism and also realized some economic, political, ideological, moral, and cultural features of this stage. This was because we adhered to the scientific Marxist methodology of seeking truth from facts and dealing with all issues in a realistic way. As Comrade Deng Xiaoping stressed, "In the past, we relied on the spirit of seeking truth from facts to carry out the revolution successfully; at present, in order to realize the four modernizations, we must also rely on this spirit."

Second, the Public Ownership System and Distribution System According to People's Work Determine the Essential Characteristics of the Basic Economic Relations in Socialism, But There Are Some Imperfections in These Systems

The analysis and implementation of the public ownership system and distribution system according to people's work is a central issue in determining the current developmental stage in our country. So far, however, this issue has often been neglected. People seemed to pay more attention to the study of economic elements not under public ownership and to distribution not according to people's work. To determine the essential feature of a thing, we should first accurately grasp its principal contradiction. If Marx did not focus his study on capital, he would not have scientifically revealed the basic economic relations of capitalism. Similarly, if Mao Zedong did not focus his study on the socioeconomic features of a semifeudal and semi-colonial society, he would not have correctly grasped the law governing China's new democratic revolution.

Socialist public ownership and distribution according to work has been put into practice for 70 years. All people who respect facts may notice that the economic structure envisioned by the founders of Marxism has encountered difficulties and setbacks to different degrees in the socialist practice of various countries. In particular, after ending the polarization of wealth and poverty, a chronic malady of capitalism in which wealth accumulates at one pole and poverty at the other (see "Das Kapital" Vol 1, p 708), the socialist countries did not successfully realize the efficient operation and advantageous development envisioned by the founders of Marxism. This precisely reflected the deviation of the traditional socialist structure from the real essence of public ownership and distribution according to work. This is the economic cause of the serious challenge faced by the socialist economies for more than half a century. Therefore, it is necessary to renew our knowledge about the essence and contents of public ownership and distribution according to work in practice.

After the proletariat in our country seized state power, the first decisive action in the economic field was to turn the capitalist ownership of the means of production into socialized ownership through confiscation and redemption. This determined that in the aspect of the essence of the basic socioeconomic relations, it was impossible for people to use private property to achieve economic rights and status, and people could use their own work to achieve and enjoy economic rights and status. Such a form of public ownership and distribution according to work determined the socialist essence of the basic economic relations in the current period in our country. (See "The Critique of the Gotha Program" by Marx, "Selected Works of Marx and Engels" Vol 3 p 11)

The problem is that in the practice of the current socialist stage, the socialized ownership of the means of production did not simultaneously lead to the unified use of the means of production in entire society, or the national concentration of the means of production as Marx envisioned was not realized; instead, the means of production could only be used separately by individual enterprises. This caused the following contradiction in the implementation of public ownership: If the use of the means of production is not linked with the material interests of the individual users, or if we do not recognize that the enterprises themselves should be relatively independent economic entities, the use efficiency of the means of production will be lower, and this will eventually contradict the development of the productive forces. This is precisely the root cause of the defects in the traditional structure. On the other hand, if we recognize the enterprises' economic interests, this means that in the separate use of the publicly owned means of production, some non-work differences should also be recognized. This includes the difference in the assets structure in various enterprises, as well as differences caused by such external conditions as the geographical environment and market conditions.

In addition, due to the rather low socialization degree of production, the less development of the commodity economy and market system, and the great unevenness in the modernization level between various sectors of the national economy, both the planning mechanisms and market mechanisms still cannot operate in an efficient and smooth way. In these circumstances, it is still impossible to actually realize the free combination between each laborer and the means of production on an equal footing as Marx envisioned, and the differences in labor can only be those under the condition that rights and opportunities for the laborers are still unequal. All this is somewhat different from the form and content of public ownership and distribution according to work as Marx defined, and this is the fundamental reason for the imperfection of the public ownership system and distribution system in our current stage. Therefore, our present socialist economy cannot completely measure up to the standards of the socialist stage envisioned by Marx, and we are still situated in the initial stage of socialism.

The imperfection of the public ownership system and distribution system in our country in the present stage has other historical and traditional cultural reasons. Various social relations in China's feudal society had two basic fulcrums: Feudal patriarchal relations based on blood ties, and the imperial power that governed all subjects. The excessive growth of these two things left the vestige of personal attachment in people's economic relations. This makes it very difficult for the necessary conditions for the development of large-scale socialized production, which include the clearly defined ownership of property, the independence of individual interests, and the series of rules and social standards related to the modern commodity economy, to spontaneously emerge, develop, and mature in the body of a feudal society.

The vestiges of the feudal history of this country for thousands of years and the feudal ideology cannot be eliminated as easily as the "expropriation of the exploiters," which can be completed through a mass revolutionary movement. Therefore, although the socialist public ownership system and distribution-according-to-work system have been established in our

country, there may still be a certain degree of deformation and distortion. On the one hand, in the course of operation, public ownership, especially the present form of state ownership, tends to confuse the functions of enterprises with those of a government institution and attach economic relations to administrative relations. On the other hand, the system of distribution according to work is often disturbed by the vestiges of the patriarchal and clan relations which find expression in egalitarianism, and this has prevented us from recognizing the necessary differences and seeking equality in the due links. All this not only directly obstructs the development of the productive forces, but also brings about the special problems and complexity of our socialist economy. As a result, the degree of public ownership and distribution according to work in our country is even lower and more imperfect than in some other socialist countries.

Third, the Coexistence of Multiple Economic Elements, the Commodity Economy, the Market Mechanisms, and the Planning Mechanisms Are All Neutral Means and Methods That Can Promote the Socialization of Production

In their economic practice, socialist countries have time and again encountered another kind of contradiction: On the one hand, the use of market mechanisms, the development of the commodity economy, and the coexistence of multiple economic elements seem to restore and develop capitalism; on the other hand, if these measures are not taken to build socialism, things will go sharply against the development of productive forces and the process of production socialization.

In order to correctly resolve this contradiction, we need to renew our understanding of the economic nature of these means and methods which are suited and favorable to the socialization of production. In a broad sense, social relations between producers, the social conditions for them to exchange their services and products, and the internal organizations for production and exchange are all economic means and methods created by mankind for the purpose of settling the contradiction between man and nature or for the development of productive forces. These economic means and methods can be divided into two categories: One category can determine the basic economic features of a society and reflect the essential relationship between men in this socioeconomic form. For example, the ownership form and the corresponding form of distribution that hold a dominant position in a society belong to this category, and these means and methods are only applicable in a special socioeconomic form. The other category are "neutral" means and methods that cannot determine the basic economic features of a society. For example, taxes, prices, planning, and market mechanisms belong to this category. These means and methods can be used in different stages of the same socioeconomic form or in different socioeconomic forms. These two categories of means and methods are certainly used at the same time in a specific form of society in a different pattern of combination. This is the reason Marx said that socialism can and needs to make use of management methods of capitalist enterprises, which acted something like a symphony orchestra, and why Lenin said that socialism can and needs to use the organizational form of large capitalist trusts.

In this sense, the coexistence of a variety of economic elements in different socioeconomic forms is itself a neutral means and method that suits and promotes the socialization of production.

Today, more than 100 years after Marx died, although modern productive forces have developed to an unprecedented level, the unevenness and multi-tieredness of the development of productive forces have never been and cannot be eliminated in any country. On the contrary, the new tendency shows that large-scale and small-scale production and concentrated and scattered production continue to develop at the same time in a parallel way. It is thus inevitable for any society to allow the coexistence of various ownership forms and economic elements, no matter what the dominant ownership form and distribution system. This state of affairs is suited to the developmental conditions of production socialization and will better promote the development of the productive forces. This is the fundamental reason for the coexistence of various economic elements as a neutral means and method in any society.

When Marx lived, there were not only the dominant economic element of capitalism, but also some pre-capitalist economic elements in Britain, and there was even some element of public ownership. Even so, Marx still took the British economy as the typical case of capitalism. Marx himself clearly explained this by saying: "In any social forms, there must be a certain kind of production, which determines the position and influence of other kinds of production; thus, its relations also determine the position and influence of other relations. It is a kind of prevailing light, which covers all colors or changes their features. It is a special [words indistinct] (See "The Introduction of 'Critique of Political Economics'" by Marx, "Selected Works of Marx and Engels" Vol 2 p 109) Here, the theory about the "prevailing light" and the "ether" obviously refers to the basic reason why the coexistence of various economic elements did not affect the essential features of the specific social form. Of course, in the periods when drastic changes occur in a social form, as a variety of economic elements coexist, the dominant economic element may be replaced by another economic element, thus bringing about the change in social form. Even in such periods, what changes is just the dominant element, but not the fact that a variety of economic elements coexist.

In the aspect of suiting and promoting production socialization, not only the commodity economy as its core--the market mechanisms, but even the planning mechanisms are all extremely important neutral means and methods. At present, many socialist countries have introduced the market mechanisms as a basic measure for reforming the traditional structure and raising the efficiency of the economic operation. At the same time, the means of planning has also been more and more extensively used by capitalist states for managing the national economy. However, socialism has not become capitalism, and capitalism has not become socialism as some people expect. This fact proves that both the market and planning mechanisms are just neutral means and methods which cannot be regarded as a special feature of capitalism or socialism.

As a matter of fact, both market and planning mechanisms are economic means and methods created by human society to meet the needs of production socialization and to coordinate social production and exchange activities. The only difference between the two lies in this fact: The market mechanisms, as the social ties between producers or enterprises, take the independent economic interests of enterprises as the historical and logical premise, while the planning mechanisms, especially mandatory plans, take the whole country as a large factory and each enterprise as a workshop or production group of this factory to conduct unified business accounting in the whole society. On the other hand, these two kinds of means are suited to and compatible with the process of production socialization in different ways. Production socialization not only refers to the scope and scale of joint work determined by the nature of the means of production, but it also includes another aspect—that is, the continuous increase in the products being exchanged and the integration of the economic life, which develop along with the development of social division of work and the expansion of the enterprises' external relations and interdependent relations. In general, the first aspect of production socialization is marked by enlargement of the scale of enterprises in actual economic activities. This makes the whole country operate like a large factory, thus providing the material foundation for the implementation of mandatory plans. The second aspect of socialization is marked by expansion of relations between enterprises, and it leaves a broad scope for the market mechanisms to strengthen the external relations of the enterprises. Obviously, these two aspects of production socialization may be combined in many different ways in the course of development. In a certain period, like Marx' period of steam engines, production socialization mainly developed in the first aspect, while in another period, especially in our present period of the new technological revolution, socialization mainly develops in the second aspect. Therefore, it is a matter of optimization to decide whether to adopt the market mechanisms or planning mechanisms to adjust and regulate a country's economic activities in light of the developmental tendency in production socialization.

The basis yardstick for the selection is to compare the social costs of the use of the market mechanisms with those of the planning mechanisms. When the costs of a certain regulating method become too heavy and the whole society may incur losses, it is time to shift to the other kind of regulating mechanisms. This is the fundamental reason many socialist countries have now introduced the market mechanisms in their economic structural reforms.

Fourth, the People's Democratic Politics in the Initial Stage of Socialism Is of Great Internal Vigor and Has Bright Development Prospects, But It Cannot Be as Perfect and Integrated as Marx Envisioned

The basic fact in our country since the founding of the PRC is: the Proletariat's seizure of state power has fundamentally established and ensured the basic political system of socialism with the people's democratic dictatorship under the leadership of the Communist Party, and has guaranteed the socialist ideology under the guidance of Marxism, thus guaranteeing and promoting the country's unification, people's unity, and development of the socialist cause.

Strictly speaking, the basic character of property and ownership not only determines the role and position of every person in socioeconomic relations, but also determines his position in the social political life. Therefore, the socialized character of the public ownership system over the means of production in the present stage has basically ruled out the possibility of any person gaining a privileged position in economic relations and in political life by holding "more" property. This thus not only has laid the foundation for all people to hold the fruits of their labor and enjoy the results of their joint work, but has also ensured that all laborers can directly obtain an equal and democratic position in the scope they work, thus laying a foundation for gaining direct and indirect equality and democracy in all social life.

More important, the development of the productive forces and production relations since the founding of the PRC, especially the development of the socialist structural reform in the last 8 years, has inevitably required and caused the development of the political structure in a more reasonable orientation and required the strengthening and improvement of the party's leadership, enhancement of the work efficiency of the government, development of the people's democracy, and consolidation of the basic socialist political system, in line with the law that the social superstructure is determined by the economic basis, which was revealed by Marx. Therefore, it is now more improper than at any time before to doubt the Communist Party's leadership and the basic political system of socialism.

However, we cannot deny that the practice of the people's democracy in the past few decades was not as perfect and integrated as the theoretical description of Marxism-Leninism. This was related to the imperfection of the public ownership system and the system of distribution according to work, which form the economic basis of our society. In the final analysis, it was related to the low level of productive forces and low degree of production socialization in our country.

The people's socialist democracy could not be fully developed in practice also because there were various problems and defects in our political structure. A major problem was that the party's leadership, the government's management, and the functions of the owners were confused. In the aspect of the party's leadership system, the party organizations often perform the administrative functions of the governments, and there were no concrete stipulations in the implementation of the system of democratic centralism; in the aspect of the state leadership structure, power was excessively concentrated, and enterprises were taken as affiliated institutions of the governments, which were often over-staffed and unwieldy; in the entire social life, we lacked a perfect legal system and effective people's supervision.

Therefore, the basic objectives of our country's political structural reform are to strengthen and improve party leadership, to raise government work efficiency, and to develop a high degree of socialist democracy and a perfect legal system. Here, we should pay special attention to an important fact: Our country had a feudal history as long as thousands of years, and the old society did not leave to us the norms of conduct and social standards

for respecting property rights and legal rights. This was an important reason the people's socialist democracy was not fully developed in the past. For a fairly long period to come, this will remain a major obstacle to the full development and perfection of the people's democracy. We must deal seriously with this problem. Of course, we should also clearly distinguish socialist democracy from capitalist democracy in principle and guard against the corrosive influence of decadent bourgeois ideology. This is also an important issue that we should always notice in the course of realizing a high degree of socialist democracy.

Fifth, the Strategic Option for Fulfilling the Historical Tasks in the Initial Stage of Socialism in Our Country Is: Through All-Round Reform, Promoting the Socialization of Production, Developing the Commodity Economy, Perfecting the Relations of Production, Legalizing the People's Democracy, Going All Out To Develop the Productive Forces, and Realizing Economic and Social Modernization

Today, we have found a correct development course, and we will not backtrack to capitalism and will not pursue an unrealistically advanced stage of socialism. The objective foundation for our selection is that we will firmly grasp the basic features of the initial stage of socialism in our country and correctly understand the historical position of this initial stage in the entire process of socialist development in our country and the general tasks determined by this. This is also the foundation for our decision to adhere to the four cardinal principles to carry out the policy of reform, opening up, and economic invigoration, and to build socialism with Chinese characteristics by combining these two sides; and is also the precondition for us to decide the strategic option for realizing the general tasks in the initial stage of socialism in our country.

The basic characteristics of the initial stage of socialism in our country are:

Our social productive forces have been greatly increased and have unlimited internal vitality and vigor, but the level of production socialization and the commodity economy remain rather low, and we remain in a rather backward position in the world's economic arena.

Our socialist production relations have been established and have been continuously consolidated and developed, but the form of public ownership and distribution according to work is still not perfect. The vestiges of the feudal socioeconomic relations, which lasted thousands of years, the defects left over by the traditional structure in the first 30 years of the People's Republic, and the influence of decadent bourgeois ideology have caused deformation and distortion in some major aspects of our actual economic relations.

The basic political system of socialism and the corresponding ideology have held a dominant position, but the people's democracy has not been fully developed in scope and depth. There is still arduous work to cultivate the values of respecting law and establishing socialist conduct norms.

All these basic characteristics determine the difference between our tasks in the initial stage of socialism and our tasks in the period of transition from new democratism to socialism. In the transition period, the economic foundation of public ownership was not laid and the issue of who defeats whom was not resolved. In that period, the basic task was to "establish" new economic relations and superstructure completely different from the previous ones to emancipate the productive forces. However, in the initial stage of socialism, these issues have been resolved, and the new task is to "develop" public ownership, the system of distribution according to work, and the imperfect democratic politics that have been "established" to fully develop the productive forces, realize modernization, meet the increasing material and cultural needs of the people, and build a high degree of democracy and civilization.

The strategic option for fulfilling these historical tasks in this period is: Through all-round reform, promoting the socialization of production, developing the commodity economy, perfecting the relations of production, legalizing and fully developing the people's democracy, going all out to develop the productive forces, and realizing economic and social modernization. At present, we should first properly integrate the four cardinal principles with the policy of reform, opening up, and economic invigoration. If we do not adhere to the four cardinal principles, our reform, opening up and economic invigoration would deviate from the correct course. On the other hand, if we do not carry out reform, open up to the outside world, and invigorate our economy, our productive forces would not fully develop, the superiority of socialism would not be brought into full play, and many contradictions and problems in the primary stage of socialism would not be effectively resolved. Adherence to the four cardinal principles would then just become empty talk. Second, we must emancipate our minds from dogmatic understanding of Marxism and from the rigid model for socialist construction, shake off the chains left over from history, and firmly adhere to the reform road which suited China's national conditions. Finally, in the entire structural reform, we should pay special attention to properly handling the relationship between economic reform and political reform. Economic reform needs political reform, and political reform also needs economic reform. The key is to take the reform of the enterprise leadership system as the linking junction of economic reform and political reform. This will not only reform the enterprise management system, but will also deepen the entire economic structural reform, and will not only reform the leadership system in enterprises, but will also advance the entire political structural reform in a solid and steady way.

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BRIEFS

INSTITUTE OFFICIAL VISITS USSR—A meeting with (Fang Kui), head of China's Institute of Soviet Studies, was held at the Institute of Far East Studies of the Soviet Academy of Sciences on 5 June. The Chinese guest talked about the work of the institute he heads and a plan for scientific cooperation between Chinese and Soviet scholars. (Fang Kui) is visiting the Soviet Union at the invitation of (Chitalenko), head of the Institute of Far East Studies of the Soviet Academy of Sciences. Not long ago, (Chitalenko) visited China as a member of Soviet delegation. [Text] [Moscow in Mandarin to China 0100 GMT 6 Jun 87] /8309

PRC TOURISM GROUP IN USSR—A delegation of the Chinese National Tourism Administration, headed by its director general, Han Kehua, left Moscow for home 15 June at the conclusion of a 10-day visit to the Soviet Union. During the visit, talks were held between members of the Chinese delegation and their Soviet counterparts. The sides informed one another of the situation and prospects for development of foreign tourism in their countries. On the same day, Han Kehua and Pavlov, chairman of the USSR State Committee for Foreign Tourism, signed a protocol on the talks. [Text] [Beijing in Russian to the USSR 1800 GMT 16 Jun 87] /8309

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PRC-U.S. SYMPOSIUM ON ECONOMIC COOPERATION OPENS

HK300604 Wuhan Hubei Provincial Service in Mandarin 0900 GMT 29 Jun 87

[Text] A Sino-U.S. symposium on economic cooperation opened this morning in Wuhan. Attending the symposium are more than 60 economic specialists and scholars from the Chinese and American sides. Attending the opening ceremony of the symposium were Liang Shufen, vice governor of the Hubei Provincial Government, (Li Zhi), chairman of the Wuhan City Commission for Restructuring the economic system, as well as (Wiedeman), commercial counsellor at the U.S. Embassy in China.

The tasks of this Sino-U.S. symposium on economic cooperation are to review the history of Sino-U.S. economic relations and to map out a research program to be jointly carried out by Chinese and American economists in the 1990's. More than 40 papers from the Chinese and American sides will be exchanged at the symposium.

In her speech at the opening ceremony, Liang Shufen, vice governor of Hubei Province, noted: Under the new situation, in which the Chinese Government has reiterated the policy on deepening reform and further opening up China to the outside world, the convening of this Sino-U.S. symposium on economic cooperation will undoubtedly deepen the mutual understanding and promote the cooperation and contacts between the Chinese and American sides. I have taken this opportunity to see and understand that Hubei is a good place for foreign businessmen to make investments. I firmly believe that this symposium will certainly contribute to promoting and expediting our province's economic structural reform and will surely push forward our province's work of conducting economic and cultural exchanges, importing technologies, and promoting international contacts and cooperation.

A representative of the American side delivered a speech at the symposium, saying: The concept of economy has no boundary. Economic cooperation requires a good environment. We warmly welcome the Chinese Government's implementation of its policy on opening up. We hope to conduct long-term cooperation and exchanges.

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CEO: 4006/783

LIAOWANG ON CONTRACT SYSTEM IN STATE ENTERPRISES

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[Article by li Shiyi (2621 0013 5030) and Gao Qinglin (7559 1987 2651): "The Keynote of China's Economic Reform This Summer--Large and MEdium-sized State Enterprises Begin To Implement the Contract System"]

[Text] After successfully implementing the contract responsibility system among the 800 million peasants, China has now officially invited it to the cities to invigorate the vitality of large and medium-sized state enterprises on the mainland. While on a inspection tour in Beijing and Shanghai sometime ago, Premier Zhao Ziyang indicated that it is imperative for large and medium-sized enterprises to implement numerous forms of the contract responsibility system for operation.

These reporters have learned from the State Economic Commission and the State Commission for Restructuring Economy that the competent departments have signed 4-year contracts with the directors and managers of a number of large and medium-sized state enterprises. This work will be launched on the national scale this summer.

The Contract System Sweeps Across Country and Town

Last March, in the capacity of a legal person, Tang Qiyuang, director of Hebei's Shijiazhuang Water Pump Plant, signed a contract for business operation with the Shijiazhuang Economic Commission. The contract takes the plant's profit, which came to 10.16 million yuan last year, as a contract target. If the plant overfulfills the target, the excess profit will be shared between the enterprise and the state in a ratio of 7 to 3. If it fails to fulfill the profit target, the balance will be made up by the enterprises with funds at its own disposal. The contract is to last until 1990. During the contracted period, the enterprise must stimulate technological advance according to the contract.

Plant director Kang Qiguang told these reporters: After signing the contract, the enterprises and the competent department became two parties to the contract, with party A representing the state and party B representing the enterprise legal person. After that, the state's competent industrial department cannot interfere in the operational activities of the enterprise.

Within the contracted period, changes in prices, interest rates, market, and a series of external environments will be handled by the enterprise itself. If the enterprise gives a poor performance, the wages and bonuses of the plant director will be reduced according to specific circumstances and the income of the staff will decrease accordingly.

In Beijing, there are 100 large and medium-sized enterprises implementing the contract system as Shijiazhuang Water Pump Plant does. In Guangdong's Guangzhou, Shaoguan, Zhanqing, Maoming, and other cities, there are over 470 such enterprises. Many large and medium-sized enterprises in Liaoning, Shandong, Heilongjiang, and Gansu Provinces have also adopted this operational form.

On 27 last April, in keeping with the State Council's demand, the State Economic Commission called the economic officials of 27 provinces, municipalities, and autonomous regions throughout the country to Beijing to discuss the question of promoting this reform plan in an all-round way. The state will call on those large and medium-sized enterprises making big profits and great contributions, making little profits, or operating at some losses, as well as those which urgently need technological transformation, to implement the contract system first. The State Economic Commission has worked out measures for its implementation. The contract system will principally adopt the following five forms:

1. "Two guarantees and one link"--the profits and taxes to be delivered to the state and the technological transformation projects approved by the state should be guaranteed; the volume of wages should be linked with profits and taxes.
2. The practice of requiring enterprises to progressively increase profits turned over to the state. After appraising and fixing the bases of profits to be turned over to the state, the enterprises should, in line with the stipulation, progressively increase year by year the profits to be turned over to the state.
3. The contract system under which the profits in excess of the bases are to be shared. After the bases of profits to be turned over to the state have been fixed, the profits in excess of the bases will be shared between the state and the enterprises according to certain proportions.
4. The contract system under which enterprises making little profits or operated at some losses are responsible for their profits or losses. The contracted bases will be fixed according to the specific circumstances of different enterprises. The profits or losses in excess of the bases will be wholly or mostly retained or borne by the enterprises.
5. The input-output contract system for different trades.

So far, eight major departments, namely, petroleum, coal, petrochemical, metallurgy, nonferrous metal, railway, post and telecommunications, and

aviation, have instituted the input-output contract system on a trade basis. the contract system has developed from the rural areas to the cities and from small enterprises to large and medium-sized ones and has eventually be popularized on a trade basis. Consequently, it has swept across China's town and country, developing into the principal aspect of reform.

Exploring New Ways Instead of Taking the Beaten Track

Of the over 400,000 industrial enterprises in China, there are over 8,200 large and medium-sized enterprises, accounting for only 2 percent. These enterprises occupy a very important position in the national economy and social development and produce almost all crude oil, aircraft, locomotives, trucks and passenger cars, refined oil, electricity, cars, steel products, and iron, as well as 10 kinds of nonferrous metal and important materials. they also constitute a major source of government revenue. After conduction reform for several years, small enterprises have manifested their vitality but most large and medium-sized enterprises have not been invigorated. They yield very poor economic results, fail to give scope to their potentials, and lack the capacity for transformation and development.

At present, these large and medium-sized enterprises are in the midst of the replacement of the old structure by the new. It is impossible for them to rely on the old structure any more but the new structure is still imperfect. For example, the previous state allocations to enterprises have been replaced by bank loans, the scope of mandatory planning has been greatly reduced, and the quantity of raw and semifinished materials allotted according to the plan has been increasingly reduced. Having lost the previous sources of interest-free capital and low-price raw materials, the large and medium-sized enterprises also face competition from a large number of small enterprises which have been invigorated. Moreover, the new market system has not grown to maturity. All this has added difficulty to the operations of large and medium-sized enterprises. Because these enterprises are major sources of state revenue, for many years in the past they have been kept under rigid control. They have made great contributions but they have very limited funds for development.

For this reason, a major issue faced by China's economic restructuring is: if the large and medium-sized enterprises find it more and more difficult to engage in production and other operations, it will inevitably strain the state financial strength, making it necessary for the state to eventually reinforce the role of the old structure, which will increase the difficulty of future reform.

China's economic experts hold that the institution of the contract responsibility system for operation will increase the blood-making functions of the 8,000-odd large and medium-sized enterprises without increasing the financial burden of the state, and thus accumulate funds for the development for the overall situation. At the national governor's work meeting held last February, the State Council made this decision. Last March, in his "Government Work Report" to the NPC meeting, Premier Zhao Ziyang announced this policy decision to the whole nation.

What Problems Will the Contract System Concentrate on Solving?

This is not the first appearance of the contract system in the urban reform. Since its introduction from the rural areas to the cities 5 years ago, some large and medium-sized enterprises have implemented the contract system. With each enterprise having a contract base, the relationships between the enterprises have implemented the contract system. With each enterprises having a contract base, the relationships between the enterprises and the state were not standardized and the calculation procedure was both tedious and complicated. Moreover, some contract bases were so low that a few enterprises became rich. They spent much money in consumer goods, thus swelling the consumption funds. To overcome these defects, the state implemented in 1983 the system of substituting taxes for profits. That is to say, instead of delivering profits to the state, the enterprises pay a certain proportion of the income tax, which is generally 55 percent of the profit.

The substitution of taxes for profits has changed the practice of unified state control over the income and expenditure of enterprises over the past 30 years. It unifies the distribution relationship between the state and enterprises and ensures that the state will always receive a greater proportion of the enterprises' income. Judging from the situation at the present stage, however, the substitution of taxes for profits has not been able to effectively arouse the initiatives of enterprises.

The implementation of the contract system can solve once and for all the responsibility, power, and interest in the relationship between the state and enterprises. Because it has strong adaptability and is in keeping with the current national conditions, the quantities and forms of the contracts can be adjusted according to the specific conditions in different enterprises.

The key content of the contract system is to arouse the initiative of enterprises and to tap their potentials on the basis of ensuring state revenue. The enterprises will derive more benefit from the newly increased profits. Most of the risks undertaken by the state before will also be shifted to the enterprises so that the enterprises will assume both the duty and responsibility in an all-round way.

The present contract system is different from the one implemented in 1982 in that it is more perfect. Its outstanding manifestation lies in its inclusion of not only the profits and taxes to be delivered to the state but also the staying power of enterprises. The contract usually should stipulate in explicit terms targets for technological transformation and appreciation in fixed assets.

China's large and medium-sized enterprises are mostly old enterprises. They urgently need technological transformation to increase their blood-making functions. The time limit for the contract has generally been extended to 4 years. If the enterprises want to fulfill the contracted targets, they must attach importance to investment and, because they can retain all or most of the increased profit through investment, they also have the ability to carry out technological transformation.

Good Experimental Results

Born in the course of reform, the contract system implemented by large and medium-sized enterprises has yielded satisfactory results. Heilongjiang's Jiamusi Paper Mill is an old enterprise built with the Soviet aid during the First 5-Year Plan. It is also the largest paper mill in China to date. With the approval of the state, the mill implemented a contract system on a trial basis in 1982. With the 32 million yuan profit delivered to the state in 1982 as the base, the enterprise was to progressively increase its target by 7 percent a year. The profit in excess of the target was to be retained by the enterprises. The stipulation would remain unchanged for 3 years. Over the past 3 years, the realized profits of the mill are 10 million yuan more than its total profits over the previous 6 years and the total profits and taxes delivered to the state correspond to 85.1 percent of the state total investment since its founding.

Jiamusi Paper Mill is a key enterprise in China's papermaking industry. However, in the 26 years before the contract system was instituted, its technology and equipment had never been upgraded or transformed on a large scale. With 60 percent of its production equipment in a state of extended active duty, its equipment was ageing and its technology backward. Although the state had made arrangements for some technological transformation projects, the mill was not keen to do them. Neither did it have the money to invest in the technological transformation projects it wanted to carry out. After instituting the contract system, the mill completed 71 technological transformation and production development projects with the retained profits and loans, which increase the economic results by over 30 million yuan annually. With improved technological level and a marked drop in consumption, the mill's quality goods rate has drastically increased from 6.55 percent in 1982 to 77.6 percent. To date, the mill has increased the state's fixed assets by over 912 million yuan with its own accumulated funds.

In Beijing, the directors of large and medium-sized enterprises which have instituted the contract system said: The only way out for enterprises after the institution of the contract system is to tap the internal potentials and to run the plants strictly. Calculated according to quotas, it was very difficult for the Beijing Heavy-duty Electrical Machinery Plant to fulfill 59,000 work hours a month. After instituting the contract system this year, it fulfilled 100,000 work hours in March, exceeding the quota by almost 100 percent. The reason was that the contract task was assigned at all levels from the enterprise, workshops, teams or groups, to individuals and that the production task was linked to economic results, making it possible for those who work more to get more pay.

After the institution of the contract system by large and medium-sized enterprises, it will be necessary to continuously advance other support reforms, with the stress on further implementing the director responsibility system and the system under that a plant director is held responsible for the attainment of certain objective during his or her terms of office. Moreover, it is also necessary to launch lateral economic association among enterprises.

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CEO: 4006/783

STATE COUNCIL ON STRUCTURAL REFORM

OW281121 Beijing XINHUA Domestic Service in Chinese 0141 GMT 25 Jun 87

[Text] Beijing, 25 June (XINHUA)--The State Council approved a "Proposal for Deepening the Structural Reform of State-Owned Commercial Units" jointly submitted by the State Commission for Restructuring the economic System, the Ministry of Commerce, and the Ministry of Finance and distributed it to all localities and departments on 10 June with the instruction that the people's governments at all levels and the departments concerned put this proposal into practice in accordance with the specific conditions of their respective localities.

The "Proposal" pointed out: Since the 3d Plenary Session of the 11th CPC Central Committee, the commercial system of our country has, as result of reform, begun to assume the style of multiple economic forms, diverse ways of operations, and more circulation of commodities. Progress has been noted in "reforming, transferring, and leasing" small state-owned enterprises, exploring new forms of commerce, and developing lateral ties. All these have contributed to the briskness and prosperity of our market. Yet, there are main a number of problems because we are still in the process of exploring the best Chinese mode of commodity circulation, and the reform we have thus far carried out is still imperfect. The main problems are: The state-owned commercial enterprises lack a sufficiently high vitality; the practice of "eating from the same big pot" has not been really eliminated; the capability of self-development is weak; the market system is imperfect; the mechanism of market operations is ineffective; there is no distinction between the duties and responsibilities of the government and enterprises; and the means of regulations is inadequate. To intensify the structural reform of state-owned commercial enterprises, we must adhere to the principle of taking public ownership as the foundation and separating ownership from the power of operations. We must focus on increasing the vitality of the enterprises and proceed with multifarious reforms of the management and operations systems in accordance with the characteristics of the different trades and the scales of the enterprises. We must see to it that the state-owned commercial enterprises will truly become economic entities operating independently and responsible for their own profits and losses. In the market, they should play the leading role that state-owned commercial units should assume.

The specific details of this proposal are as follows:

The problem of the vitality of large and medium-sized state-owned commercial enterprises (including whole enterprises) has not yet been radically solved. Further reform efforts in this respect are required. The emphasis of reform should be placed on implementing step by step, in a planned way, the various forms of contracted operational responsibility systems and reforming the leadership, distribution, and labor systems as required. It is necessary to put into effect the manager responsibility system. The manager, being the legal representative of the enterprise, should play a central role and undertake the full responsibility for the enterprise's personnel, financial affairs, and materials as well as the production, supply, and sales of its commodities. Present staff members and workers should be trained in different groups, one group at a time. Those who have received training but still fail to meet the requirements for their work posts should be transferred to other jobs for which they are better suited. For medium retail commercial enterprises, a collective lease system should be put into practice on a trial basis. In this system, a lease contract is signed with the competent department concerned and notarized by the notary department, and the contractor assumes legal responsibilities. In principle, the original staff and workers are to be taken over by the enterprise, except those who want to seek other jobs of their own accord. Both the ownership of the leased enterprise and the status of its staff and workers remain unchanged. Stock enterprises established on a trial basis in various localities may continue to operate. Excepting the fact that enterprises may buy shares from each other, no new experimental stock enterprises will be established this year.

Further efforts should be made to reform small state-owned enterprises. Those that have been transferred to collective ownership should be consolidated and improved further. Those that have changed to state-owned but collectively operated enterprises may remain unchanged or may be leased out. As for those that have neither been transferred nor changed as mentioned above, all-out efforts should be made to implement the operations lease system. When small state-run enterprises institute the lease system, they should start from catering and other service trades, repair shops and grocery stores and gradually extend to department and hardware stores and cover other trades such as communications, power supply, storage, and transportation. When a small enterprise implements a lease system, it should mainly lease to its own workers and staff members. It may also lease to the community. However, all this must go through the practice of public bidding. In leasing an enterprise, it is necessary to determine a reasonable rent and a rational proportion of income distribution, and collect the regulatory tax according to relevant regulations from individuals on the basis of their income. The leaseholder should hold himself fully responsible for the enterprise's property and management. His income may be adequately higher than the workers in the enterprise. The collective commercial enterprises which were originally placed under the centralized management of the state and those small state-owned enterprises which are now collectively owned must become truly collectively owned in the form of partnership. Small stores or stalls in remote areas which suffer losses over a protracted period may be sold through public auction. After workers and staff members of state-owned enterprises have bought small enterprises, they will lose their status and wages as

workers or staff members of the state-owned enterprises and become individual workers or businessmen. Those workers who are willing and agree to stay behind and continue to work for the enterprises can no longer retain their status as workers or staff members of a state-run enterprise. Those who are unwilling to stay behind to work for the enterprise may find other jobs or ask the department in charge of the enterprise to assign them to work elsewhere. The buyer of the enterprise must make overall retirement payments according to the regulation of the local people's government to those who retired from the enterprise before.

Further efforts must be made to reform state-run commercial establishments for wholesale business. On the basis of the requirements in turning out more specialized and community-oriented products, the state-run wholesale enterprises in large and medium-sized cities must carry out reform according to local condition. Basic-level food centers for buying and selling foodstuffs may be run under the contractual or lease system. They may also be reformed in the same way as the small enterprises. Adhering to the principle of opening to the outside and serving the community, trade centers in central cities must explore ways to carry out reform and create conditions to gradually replace the existing markets so that they would become a permanent site for trading commodities. It is necessary to build urban markets for wholesale business and for small commodities to satisfy the needs of the people. The new form of wholesale business which emerged in the course of establishing horizontal economic ties has already demonstrated its vitality. Efforts must be made to break the barriers between trades, departments, areas, and various ownership systems, seek mutual partnership, and organize wholesale enterprises which would run under independent management, hold themselves responsible for their own gains or losses, and determine how their own income should be distributed. Various forms of wholesale business must be adopted under flexible management. 1) Enterprises in wholesale business may ally themselves with production enterprises under the same management and develop into a wholesale business entity combining production with marketing. 2) Various enterprises in wholesale business in large and medium-sized cities must set up a radiator-type network. They may set up branches in various localities or establish ties with other enterprises. 3) While large and medium-sized enterprises in retail business in one city may establish ties with those in another city, several groups of enterprises may be organized to handle both retail and wholesale transactions, gradually forming commercial establishments of a comprehensive nature. 4) State-run enterprises in wholesale business may act as agents, and try to do business as brokers. They may be reorganized by those who have become well-to-do after the reform to act as agents to specialize in shipping and transportation business or in settling or transferring accounts and doing other businesses. The warehouses and cargo holding and transportation facilities of the existing state-run commercial enterprises may be made open to the public and may be reorganized to become economic entities under independent management which are responsible for their own gains or losses.

While maintaining the basic stability of commodity prices, it is necessary to carry out price reform steadily and under proper leadership. Efforts must be made to change the practice of transferring goods with a "fixed rebate" on

the basis of the wholesale price in the place where the goods are purchased to the circulation channel, the wholesale and retail business enterprises, based on the factory price, add their reasonable overhead expenses, tax, and profits to come up with the list price. Right now, the small commodities and bicycles, of which the prices have been decontrolled, are available on the market at price fixed on the basis of this practice of sequential addition. Commodities of which the prices are fixed or guided by the state must gradually become available on the market at prices determined on the basis of the practice of sequential addition after going through price readjustments within one's jurisdiction in price control and after the approval of the proper authority. Efforts must be made to gradually widen the various price differences. In principle, the seasonal price differences must be large enough to defray the expenses for storing goods for seasonal reasons, make reasonable profits, and offset the damages to the merchandise. It is essential to strictly adhere to the principle of selling high quality merchandise at a higher price, and adequately widen the price differences between goods of different qualities (including price differences between goods of different grades, qualities, and varieties and between old and new merchandise.) It is necessary to encourage enterprises to produce more high quality products of famous brands and goods that are readily marketable. Efforts must be made to gradually decontrol prices in the catering and other service trades under the proper supervision. While decontrolling prices, we must delegate the authority of fixing prices truly to the enterprises, and let them set their own prices according to state regulations and policy. Catering and other service trades must also set their prices on the basis of quality, and classify their services into different grades.

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CEO: 4006/783

. AGENDA FOR FINANCIAL STRUCTURAL REFORM

Beijing ZHONGGUO GINGJI TISHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] No 2, 23 Feb 87 pp 6-8

[Article by An Zhiwen [1344 1807 2429]: "Quicken the Pace and Broaden the Scope of Financial Structural Reforms." Article is an excerpt from a speech delivered by the author at the Symposium On Financial Structural Reforms In The Pilot Cities.]

[Text] After almost a year's experiments and practice we have learned more about the importance and effects of financial structural reforms, and we have also discovered the right approaches. Therefore we should quicken the pace and do a good job with the financial reforms to facilitate the smooth development of the overall restructuring of the economic system.

I. The Need To Quicken the Pace of Financial Structural Reforms

As the planned commodity economy develops, and the restructuring of the economic system progresses further, increasingly financial policies and measures are playing a more prominent role in influencing economic activities. Regardless of whether we want to stimulate the economy at the microeconomic level or enhance macroeconomic controls we must rely on financial structural reforms. In other words, the developing planned commodity economy demands financial structural reforms, and the further restructuring of the economic system urgently needs financial structural reforms.

The objective of the restructuring of the economic system is to reform the old system which was highly centralized, and hand over the right to make microeconomic policy decisions concerning production and operation to the enterprises; the government should no longer interfere with the business activities of the enterprises so that enterprises can become more dynamic. Naturally, to realize these goals is no easy task; it takes time and relentless efforts, and it involves a long, step by step, process. In recent years, as the restructuring of the economic system progresses further, and broadens in scope, China's economy has also undergone drastic changes: the form of ownership and method of operation of enterprises have changed; both the individual economy and collective economy have grown; enterprises have more funds of their own. In other words, the amount and the distribution of national income have changed. On the one hand, more people are holding funds,

and there are more channels for gathering funds; on the other hand, the demand for funds has increased at every level; in addition, the development of horizontal economic integration and the expanded role of the market have amplified the importance of financial intermediaries. Increasingly, the old system which relies on one dominant channel to gather and distribute funds, and which allocates funds vertically, cannot accommodate the changes in the economy. Therefore financial structural reforms become an important agenda: by making changes, we can set up an effective financial system step by step to facilitate the rational flow of key productive elements and the optimal deployment of resources. Thus quickening the pace of the financial structural reform has become an important link in the restructuring of the economic system.

II. Goals of the Financial Structural Reform

Understanding the goals of the financial structural reforms correctly is the prerequisite to doing a good job in the experimental units and giving impetus to the entire reform. The fundamental goal of the financial reforms is to regulate the national economy through financial policies and measures. In the past we treated financial measures as accounting tools, and treated banks as if they were the planning department's teller. As the commodity economy developed further, and as the economic management functions of various levels of the government changed gradually, finance and banking, which are the government's indirect means to regulate the economy, began to play an increasingly important role in stimulating the enterprises and ensuring the steady growth of the economy as a whole. We are beginning to understand this issue better as the reforms progress. But at present there are certain difficulties in regulating the economy by financial means because, on the one hand, we are in a transitional period between the old and the new systems: we have two different pricing systems; our market mechanisms are imperfect; the government still interferes with enterprises directly and indirectly: these factors inevitably bring many conflicts and contradictions. On the other hand, we are a developing country, and in order to enhance our national strength and improve our people's living conditions, we must maintain a relatively high rate of economic growth. Under the circumstances, the pressure to increase investments has affected our overall equilibrium in supply and demand, and there is an element of instability in our economy: this is the reality we are faced with as we launch our socialist constructions and economic reforms. In order to proceed steadily with the restructuring of the economic system, and to achieve economic growth on a solid foundation, in launching financial structural reforms this year we must give full play to the regulatory effects of financial measures in the following areas in order to avoid inflation and economic instability.

1. Regulate the gross amount of funds: simply this means to open more channels to gather funds, and to increase supply by absorbing more funds to make up for shortages. At the same time, control strictly the scale of fixed asset investments; channel funds to deserving areas, and control excess demand to maintain overall balance of supply and demand for funds.

2. Regulate the direction of fund utilization: first we should differentiate between long- and short-term funds: we must not use short-term funds to meet

long-term needs so as to maintain normal production and circulation. Specifically, we must first meet the demand for short-term funds, and then consider making fixed asset investments with whatever long-term funds we have. We should also strive to develop more sources of long-term funds through implementing reforms in order to increase economic stamina and guarantee continued economic growth. At the same time, let financial and banking measures modify the industrial structure and product mix. Industries which have good credit rating and good economic results, which produce goods for export and earn foreign currencies, or which the state specifically wants to aid, and the new and developing industries should receive priority in funding.

3. Use funds more effectively: in terms of gross amounts our investments have been substantial, but part of the funds are taken up permanently and do not circulate. Through reforms we must explore potentials and stimulate funds so as to literally use the same cash over and over again: this is one way to ease the problem with fund supply and demand.

In short, through financial structural reforms, we have to learn to utilize financial tools and give play to the regulatory effects of financial measure on the economy; we want to regulate and stimulate the economy at the same time, and provide a good environment for stable economic growth.

III. Relationship Between Financial Structural Reforms and the Restructuring of the Economic System

Financial structural reform is an important element in the restructuring of the economic system. Because the restructuring of the economic system is an interlocked and complex procedure, financial structural reform will be affected and constrained by other aspects of the economic reform. Reform in the structure and operations of enterprises is the basis of economic reforms; it is also the starting point and a stop over point. Reforms of finance and banking, planning, revenues and taxation, pricing and other areas must be coordinated with enterprise reforms; they must facilitate each other and complement each other as they proceed: this is one aspect of economic reforms. On the other hand, a successful financial structural reform can facilitate macro control and stimulate business, increase the rate of fund utilization, ease the shortage of funds and other problems, and in turn promote enterprise reforms and make possible the smooth progress of the entire restructuring of the economic system. The relationship between the two reform processes is one which constrains and facilitates, and at the same times, supplements and complements.

The present situation is this: we have no ready model to follow in the restructuring of our economic system. All reforms cannot be implemented at the same time, and it is not possible to plan the whole sequence of reforms ahead of time. We have to look at the facts and explore possibilities as we proceed. Under this situation we cannot design an ideal model for financial structural reforms right away; we need hard work and constant research, and we have to sum up our experience in earnest, and proceed slowly toward the overall objective of the restructuring of the economic system.

The requirements for this year's economic reform are: center our efforts on invigorating the enterprises, especially the large and mid-sized enterprises; actively explore the ways and format of separating enterprise ownership from operations; and while we are carrying enterprise reforms further we must vigorously create external conditions to stimulate them. Establish and perfect the market mechanisms to give enterprises a good competitive environment. Financial structural reforms must keep pace with the reform of enterprise structure and operations, and they must also coordinate and complement reforms of the pricing and investment systems to ensure the steady growth of the national economy.

IV. Procedure and Methods For Implementing Financial Structural Reform In the Pilot Cities This Year

The pilot cities must follow practical procedure and correct methods to implement financial structural reform this year. The following are a few suggestions for reference:

1. Transform specialized banks at the primary level into enterprise-like operations: this is the foundation of financial reforms; the goal is to establish and perfect a diverse business responsibility system in the grass-root specialized banks to give them inherent momentum, and to mobilize the enthusiasm and creativity of the staff and workers within the financial system, so that more comrades will be willing to explore ways to carry out financial structural reforms.
2. Further popularize the money market and open long-term capital markets step by step: the establishment of long-term capital markets must be coordinated with an overall investment system reform program; we must not rush into mass action and crowd out the source of short-term funds which will then adversely affect productions.
3. To accomplish financial structural reform we must develop diversified financial institutions, but we must be practical: they should be developed only if they are really needed, and only if it is feasible, so that there is healthy competition, and the standard of services can be improved; avoid formalism.
4. Pilot cities are the pioneers of financial reforms; they must explore with courage but act with caution. The government in those cities must work closely with the upper management organs of the specialized banks; they must consult and accommodate each other, and serve the grass-root financial institutions together. A successful financial structural reform in the pilot cities will not only give impetus to the entire financial structural reform, it can also explore ways to change the functions of the urban governments and the financial management organs to create suitable conditions for institutional reforms in the future; therefore we must carry out this task diligently.

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CSO: 4006/506

MACROECONOMIC REFORM MEASURES PROPOSED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 23 Feb 87 p 12, 18

[Article in Special Report Column by Li Jiagao [2621 1367 6964]: "Invigoration of Large And Mid-Sized Enterprises And Macroeconomic Reforms," first paragraph is an editorial note.]

[Text] This newspaper has published many articles on key issues and major breakthroughs in the restructuring of the economic system. The following article rejects the proposition that changing the form of ownership is the key to economic reforms; instead it emphasizes revitalization of the large and mid-sized enterprises under the public ownership system. It advocates establishing socialist macroeconomic control mechanisms and organs through reforms to change the way government controls the economy, and rely on macroeconomic functions to regulate the economy, giving different types of enterprises varying degrees of autonomy as a means to separate ownership from operations. The following is taken from section 4 of the article which has 9 sections.

In a planned commodity economy, invigorating the economy means turning enterprises into active and energetic economic cells which can adjust to domestic and foreign markets, which can develop new channels for themselves, improve and transform themselves, and which can further develop themselves. The government is entrusted by the the people (the proprietors) to carry out their wishes and fulfill their hopes and therefore the economic departments in charge should manage the macroeconomic functions with the interest of the people in mind; enterprise leading groups are entrusted by the people to operate certain types of enterprises independently, (specific enterprises are designated by the governe~~m~~nt): macroeconomic structural reforms should resolve these relationships -- not just to make sure that the macroeconomic functions are healthy, but also to endow the enterprises, especially the publicly owned enterprises, with capabilities and vitality, and at the same time, make good use of these capabilities and vitality in a generally propitious economy, and manifest the superiority of the socialist system.

For this purpose the author would like to propose 12 measures to invigorate the economy. They entail revision of old, and adoption of new, macroeconomic concepts and also call for corresponding structural and system reforms.

1. Eradicate old concepts about the tax system: abolish the present system which penalizes production and encourages consumption; lower the tax burden of the enterprises to stimulate production and limit consumption.

Under the present system, publicly-owned enterprises are faced with a 55 percent income tax rate plus an adjustment tax which ranges from 20 to 40 percent, and other taxes, which in total can amount to 85 to 94 percent. These taxes are based on profit on sales and there is little left for the enterprise to retain and even less for development funds. The highest income tax rate is 33 percent in the U.S., 42 percent in Japan, 50 percent in the Federal Republic of Germany; in Hong Kong the highest rate is only 18.5 percent. In addition they are taxed after their R&D expenses and fixed asset investments are deducted from their profit on sales. Therefore, our first step is to abolish the adjustment tax; secondly, allow the deduction of R&D funds and internal fixed asset investments before tax, and finally, lower the income tax rates. Only by so doing can enterprises become more vigorous and financially sound. At the same time, in order to increase tax revenues, reform the personal income tax system and start levying taxes at a lower income level, and impose a circulation tax. These steps are necessary in order to turn our taxation into an economic lever capable of regulating both consumption and production.

These reforms may temporarily reduce government revenues, but in the long run they will generate more revenue and the country will be better off because much revenues can be gathered from the many seemingly insignificant sources, especially if we tap new sources in the form of personal income tax, circulation and consumption taxes. Simultaneously, we should classify the different kinds of taxation and separate central tax from local tax, and specify how local taxes may be used.

2. Change the attitude of enterprises toward scientific research and technological development, and reform the management and funding of R&D.

In a planned commodity economy, enterprises must have a business strategy to help them adjust to the competitive environment. An effective strategy is dependent on effective scientific research and technological developments which in turn are dependent on the availability of personnel, money, and resources. So far our macroeconomic management departments still do not realize the urgency and necessity of R&D in enterprises, therefore they are reluctant to invest in those activities, fearing those investments would be wasted. They are satisfied with the present mold of low productivity and high tax rates; they are ignorant of the fact that R&D is essential for increasing productivity and increasing the government revenues, which is why R&D funds must be deductible before tax.

3. Eradicate old concepts on fixed asset investment, and change China's investment management system which restricts expansion and reproduction initiated by enterprises themselves, but indulges government initiated expansion and reproduction.

If enterprise cannot make their own investment decisions they cannot automatically adjust to market changes, and they are not truly autonomous, and

naturally it is impossible for them to keep up with world trends and technological advancements.

The present system of fixed asset investments, especially basic construction procedures are obsolete, tedious, and ineffective. Experiences over the past 30 years proved that tedious procedure never stopped the "craving for investments," instead it only caused the country to forfeit many good investment opportunities. Today, replacing government allocations with loans does not solve the basic problems.

If we implement tax reforms as discussed earlier enterprises will have more funds, and consequently the system of fixed asset investment should be changed, that is, enterprises should determine and finance, including borrowing money to finance, their own internal expansion and reproduction projects; externally initiated expansion and reproduction projects should be carefully scrutinized and approved by the planning department. Most producers of consumer goods and intermediate producer goods should fund themselves, or borrow funds to finance their own investments. Enterprises producing consumer necessities, key intermediate producer goods, intermediate producer goods in short supply, and essential basic producer goods, as well as the advanced technology industries which are being encouraged to develop, transportations, communications, energy, public utilities, and similar enterprises may be financed by a combination of their own funds, borrowed funds and government subsidies. A few strategic industries involving energy, minerals, transportations, basic producer goods, and advanced technologies can be funded entirely by the state. Cultural, educational, public health, some civilian residents and household facilities, and social welfare undertakings should also be paid for by the state. Enterprises should bear full responsibility for the outcome of their investments, but the government should provide the proper investment environment and living conditions.

4. Turn old financial and credit tools into effective levers capable of promoting technological progress, increasing productions, and limiting sub-standard expansions initiated by outside authorities.

The banks should gather construction funds by attracting deposits, encouraging savings, issuing bonds, and other methods. They are responsible for evaluating loans sought by the enterprises to fund their internal expansion; they should limit sub-standard fixed asset investments initiated externally. They should determine which direction credits should flow, and set favorable interest rates based on state and local industrial development strategies and technological policies. Banks and those enterprises targetted for rapid growth should link up and form modern holding companies to gather and distribute funds, and engage in investment activities to facilitate the integrate and development of enterprises.

5. Change the old practice of officially checking up on the enterprises and appropriating more money from them every year, pushing them to the edge, forcing them to take short term profits and give up long-term strategies, and ultimately undermining their staying power.

In a planned commodity economy, to be able to survive and grow, enterprises

must depend on flexible and spontaneous business strategies. A successful enterprise is not necessarily one which shows higher output value and higher profit from the same old products every year; instead it is one which follows a strategic plan which may allow production, output value or profits to decline in order to accomplish certain strategic transformation, but which achieve long-term growth despite ups and downs in the short-run.

Therefore to maintain overall balance in the national economy, the state's planning department only has to set guidelines for most enterprises and products instead of handing down mandatory financial targets. The government depends primarily on taxation for revenues, if it lets the enterprises develop on their own, its revenues will increase; putting the squeeze on the enterprises and draining their profits would only lower government revenues.

6. Change the old concept which allows the central authorities to dictate to the local governments, and lets the central industrial departments set mandatory quotas to increase output value and local revenue quotas at every level, and change the existing method of checking up on the enterprises which treats them as if they were the appendant organs of the government, a method which contributes to the failure to separate government from business in the relationship between local government and local enterprises, and between the central industrial departments and their directly affiliated enterprises. Instead, separate central and local taxes by tax classifications: central and local enterprises pay central and local taxes according to the tax classification; the financial ministry should no longer set mandatory revenue quotas for local and central industrial departments, and stop "cooking in separate kitchens" or practicing "centralized financial policies."

Concurrently, neither the industrial departments of central government nor the local government should control the enterprises directly; in fact, the industrial departments should be abolished. The relevant central departments or local governments may continue to manage transportations, postal and electronic communications, energy, public utilities, urban transit and other agencies, but they should not have "directly affiliated" factories.

On economic matters, central tax revenues should be spent on creating a good investment environment nationwide (transportations, energy, postal and electronic communications, science, education, culture and so on,) and develop the production of basic producer goods, develop advanced technology industries, and give financial assistance to those regions with real economic difficulties. Similarly the local governments should spend their tax revenues on creating good investment environment and improving living conditions locally to attract more investments and enhance developments. In general, government should not fund enterprises directly, but may provide financial assistance to those enterprises being encouraged to developed, or help to strengthen weak links in the balanced growth of certain trades or the economy.

Only in this way can we truly separate government and business, that is, enterprises can become bona fide autonomous economic entities separate from the various central industrial departments and the local governments, and no longer are appendant organs of the government. Then enterprises can follow the law of economics without interference from the central or local

governments and be free to grow, to develop lateral relationships, or collect and distribute funds,

7. Change the present practice of awarding bonus as the primary means to replace the old allocation relationships, and abandon the old concept which sacrifices rational wage reform for the sake of financial policies, and further implement wage system reform.

The socialist wage system must be based primarily on the quality and amount of work as well as the level of responsibilities; reasonable consideration for the worker's needs is secondary.

A good wage system is one which effectively improves the work standard of the individual workers, and therefore wages should be linked to quality of work. Wages of those in responsible leadership positions should be linked to the level of responsibility, to education and seniority. Wages should not be based on egalitarianism nor should they be linked to enterprise profits; however, bonuses may be based on profits. But because enterprise profits are usually the result of well coordinated and concerted efforts within the enterprise rather than the contribution of a few individuals or departments, we should not accentuate the difference in the amount of bonuses. Do not confuse bonus with piece-work pay or award for special contribution or any other individual award.

One suggestion is to set up a structural wage system whereby workers are paid according to their job title or rank which is based on technological and professional standards, and supplement this with other wage systems such as piece-work or hourly wages to specifically suit other circumstances. At the same time set up a regular award system linked to the economic result of enterprises as whole, and supplement it with different kinds of individual awards.

8. Reform the old bureaucratic leadership system to give enterprises varying degrees of autonomy, and set up a leadership system within the enterprises.

Today the government still leads the publicly-owned enterprises as if they were government appendant organs and controls all their business activities, but it does not bear responsibility for their profits or losses.

The state has the right of ownership under the public ownership system and therefore should have the power to supervise enterprise operations and make major decisions. Enterprises are one kind of publicly-owned properties; they are the economic cells which produce goods and engage in business. A country which practices public ownership system should entrust these properties to the enterprise staff and workers and their leading groups, and let them operate those enterprises independently, thus separating ownership from operations. Economically, the primary function of the government is to create the right macroeconomic environment for enterprises to operate in autonomously: this is what the public ownership system has entrusted to the government. Therefore, the government should take care of the macroeconomic functions rather than spend all their energy on controlling the enterprises as if they were direct

administrative subordinates, or interfere with their operations, or take over their jobs.

As for the degree of autonomy an enterprise should have will depend on its importance and function in society, and on its impact on the economy: most producers of consumer goods and some producers of intermediate producer goods may be completely independent and be responsible for their own profits and losses, and be restricted to a fixed budget. Most producers of producer goods, some producers of intermediate producer goods, and a few consumer goods producers may operate autonomously and be responsible for their own profits and losses and be put on a fixed budget, but may obtain government assistance if necessary. Public utility enterprises, postal and electronic communications, and transportations should be run by the state under the business responsibility system and the economic accounting system, to be subsidized by the government if necessary.

Continue to improve the leadership system within the enterprises: the plant supervisors and the managers should have power to make business decisions, but a separate organization should be set up to take care of major decisions and routine supervisions: the present "three rules and regulations" which stipulate that the plant supervisors may convene "management committees" does not serve this purpose and should be improved.

9. Abandon old concepts and reform organization and personnel management systems within the enterprises:

At present enterprises are classified as large, medium, or small based simply on the number of staff and workers, and little consideration is given to the technological factor, the management aspect or their significance in the national economy. Enterprises are also given military or government ranks, and leading cadres are assigned to them, on the same basis: this is not practical. To rank enterprises on this basis does not lend itself to attracting people with real talent and ability to leadership positions in enterprises, nor bring the qualified people from lower ranking plants to higher ranking plants to take on leadership roles. Therefore, we should redefine the small, medium, and large enterprises based on other classifications than military or government ranks.

10. Stop treating the industrial enterprises as if they had infinite financial capability, and reform the labor insurance system, and drastically reduce the enterprise's social burdens.

At present the enterprises have a heavy social burden: one, workers retirement benefits; two, workers and staff housing constructions; three, medicare; four, child care; five, cost of living subsidies; six, compulsory education, and so on. Most of these are actually the responsibility of the various government social works and social security agencies. Nowadays, however, all social works which the government or the public agencies cannot afford to pay for are assigned to the enterprises, and they can take up as much as one third, or more, of the enterprise's retained profits. How can this have no effect on enterprises?

11. Change the old concept which centralizes the control of foreign trade, treating it as a monopoly and hampering the direct interaction between industrial enterprises and international markets. Reform the present foreign trade system and implement a system which integrates collective power and individual power so that we have a unified national foreign trade policy, a quota system, proper price management, and coordinated organizations (which is inadequate at this time) under which qualified enterprises can acquaint themselves with, and compete in, the international market.

12. When we have made some progress with the above reforms, that is, when the macroeconomic environment on the whole can successfully enliven enterprises under the public ownership system, we should device ways to handle the non-performing enterprises, including the handling of bankrupt enterprises, or enact bankruptcy laws, and put enterprises in different conditions under different degrees of "fixed budget."

The above are unavoidable basic issues which must be resolved if we want to invigorate the large and mid-sized enterprises under the public ownership system. The solution to the problems lies in the reform of the macroeconomic regulatory system and macroeconomic control organs. After we solve these problems we can then create a truly lively macroeconomic environment for the publicly-owned enterprises, and in time solve the problem of separation of ownership and operation in a socialist system. If we only resolve some minor "devolution" issues, we are not addressing the fundamental problems.

The solution to these fundamental problems does not presuppose reform of the public ownership system; on the contrary, if the enterprises are put under a shareholding system, the basic issues of macroeconomic control cannot be resolved and enterprises still cannot be invigorated.

Today some scholars criticize the public ownership system for failing to enliven the enterprises. Seldom do these scholars analyze the root-causes, comprehensively, from the point of the interaction between microeconomics and macroeconomics; they ignore the real "shackles" which restrain the publicly owned enterprises; they place the blame on the flaws of the public ownership system superficially and one-sidedly, and call for "ownership system reform" in a simple-minded way. There should be some changes in the socialist ownership system as our productive forces are being developed. But to attribute present conditions to the "public ownership system" is to fail to grasp the crux of the matter. If we can solve the basic problems systematically and with perseverance, the publicly owned enterprises will eventually demonstrate their vitality, and in fact, they can be more dynamic than township enterprises and collective enterprises; the socialist system too will be further improved and augmented, and its superiority will become even more evident, and be recognized by all people.

1. The intention of China's restructuring of the economic system is to restructure the socialist production relationships, and to perfect and develop the socialist system.

2. Improving the quality of work and perfecting the market mechanism are two

organic aspect in the planned commodity economy based on the system of public ownership; they supplement and complement each other, and neither can be ignored.

3. It is imperative that we embrace new concepts and solidly establish a system of economic levers and mechanisms which ensures a healthy macroeconomic system.

4. Turn the enterprises into viable and energetic economic cells which can truly adapt to changes in the domestic and foreign markets, and which can grow and develop, renew and transform, and adapt to changes.

5. The restructuring of the economic system, reform of the economic organization management system, and the efficiency of the government departments.

6. China needs to nurture socialist entrepreneurs, but more importantly China needs to nurture socialist macroeconomic managers.

7. Our own production relationship viewpoints, and what we should adopt or abandon among the macroeconomic control experiences of the advanced capitalist countries.

8. Pay attention to changing those concepts which obstruct the development of production relationships and any superstructures which might have been distorted by those concepts.

9. Taking one step at a time, carefully and steadily, under the guidance of a comprehensive plan, to restructure the economic system.

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ECONOMIC VITALIZATION STRATEGY FOR HUNAN

Changsha JINGJI DILI [ECONOMIC GEOGRAPHY] in Chinese Vol 7, No 1, Feb 87
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[Article by Li Wan [2621 8001]: "Taking a Multi-Pronged Approach Toward
Invigorating Hunan's Economy"]

[Text] 1. Economic Development Approach—Resources Plus Technology

There are basically two economic development approaches in developed nations around the world today. Countries like the Soviet Union, the United States, Canada, and Australia rely primarily on domestic resources and steady advances in science and technology to promote economic growth. The other group of nations, including Japan, Singapore, South Korea, and the Hong Kong region, on the other hand, depends mainly on foreign resources, imports foreign technology extensively, and seeks to build a commodity economy by processing imported raw materials and semifinished goods using advanced technology. These two economic development approaches certainly generate prosperity, but neither of them is inseparable from resources and technology. Countries which have only resources but not a high level of technology can merely offer to sell their resources and semifinished goods, not a good way to earn big sums of money, and some commodities cannot even make their way into the international marketplace. Countries in this category have a purely colonial type of economy. In contrast, if a nation possesses advanced technology, it can also compete in the international marketplace and perhaps become an economic power, even if it lacks resources. It can thus be seen that the development of technology is absolutely indispensable to economic development. But technological mastery does not come about overnight but takes shape over a long period of time. It has been more than 140 years, for instance, since Hong Kong was ceded. Only by going through a series of stages characterized successively by entrepot trade, services, light and textile industries, and electronics industry, has it been able to evolve from a mere entrepot into an international city with 5 million people, a world center in finance, information, trade, containerized shipping, air freight, and tourism. Another example is Japan. It took well over 1 century, beginning with Meiji modernization (1868-1873), for Japan to attain the standard it is at today by adopting a string of import, assimilation, and innovation measures of a capitalist nature. As for China, which had a predominantly natural economy before 1949, it was not until recent years that it began to take the

development of a commodity economy seriously. Moreover, numerous nations in the world today are far ahead of China scientifically and technologically and few countries want to use Chinese technology to process their resources and raw materials. If we simply depend on technology to generate revenues and underestimate our own resource advantages, we would find it very difficult to compete on the international marketplace in the foreseeable future. Given China's present situation and current international conditions, its strategy should be to stress technology, on the one hand, and make full use of its resource strengths, on the other. Only by combining the two can it speed up economic development.

This is even more true for Hunan. Not only does Hunan trail the international technical market, but it also fares poorly in technology compared to many outsize cities or megalopolises within China. Its industrial products are less competitive than those of such inland cities as Wuhan, Chongqing, Chengdu, and Xian, not to mention coastal cities like Shanghai, Guangzhou, and the Beijing-Shanghai-Tangshan region. If the province fails to fully exploit its resources and instead stresses technology exclusively, many sectors in Hunan will necessarily fail to take off. That is why Hunan must pay closer attention to its superiority in resources. In other words, while Hunan today must sell resources, raw materials, and semifinished goods, it absolutely cannot languish at this level but must emphasize the training of expertise, particularly the development of secondary technical and professional education, and the importation of science and technology related to its resources, especially nascent technologies such as information technology, systems engineering, biotechnology, and computer science, as well as other technology that can be used in the food, light, and textile industries, in fashion design, pharmaceuticals, animal husbandry, aquaculture, chemical industry, metallurgy, machinery, and packaging. Moreover, this must be carried out systematically in accordance with a plan; the herd instinct must be resisted. This is the only way to enable the Hunan economy to keep growing by leaps and bounds. To further exploit the abundance of ramie in the province, for example, the province must improve and import technology, go in for multiple processing, and put together a complete production system, from the cultivation of raw materials to spinning, weaving, processing, and exporting. That way the province can graduate to more upscale ramie products by shifting toward wider, finer, and more delicate fabrics and branching out into knitwear, wool spinning, and the silk industry. The idea is to gradually come up with multi-use imitation silk and imitation wool products with Hunan characteristics, using raw materials like flax polyester, ramie wool, and ramie silk, which can both spearhead the way into the world market as well as satisfy domestic needs, thus broadening sales and increasing foreign exchange earnings.

In short, combining an emphasis on resource development with a stress on technology is the only basic approach toward vitalizing Hunan's economy.

In addition, the province must formulate policies and create machinery in line with this approach to ensure that the latter is carried out successfully. Its policies are neither relevant to the approach nor specific enough. There is a dearth of region-specific policies. The management system is fragmented. All these problems must be addressed and worked out.

2. The Basic Strategy of Regional Economic Development

While Changsha-Zhuzhou-Xiangtan is unquestionably Hunan's political, scientific, technical, educational, cultural, and information center, it is an industrial base centered on the intermediate products of heavy industry, with little economic trickle-down effects on its environs. In contrast, small and medium-sized cities around it, like Hengyang, Shaoyang, Liudi, Yueyang, Liling, Yiyang, and Changde have industrial structures well suited to their own functional economic regions and have their own characteristics and independence. As a result, Changsha, Zhuzhou, and Xiangtan influence province-wide economic development only to a limited extent and cannot play much of a positive role. Besides, small and medium-sized cities like Yueyang, Chenzhou, Liling, Huaihua, Jinshi, Changde, and Yongzhou are all located centrally in economically developed areas and well placed in economic geographic terms. This suggests that we should adopt a "balanced development strategy" that combines an emphasis on the function of the Changsha-Zhuzhou-Xiangtan "golden triangle" with full exploitation of the initiative of other small and medium-sized cities and allows the latter to establish direct lateral associations in economic and technical matters with megalopolises like Shanghai, Beijing, Tianjin, Shenyang, Xian, Wuhan, Chongqing, Chengdu, and Guangzhou, and even nations abroad, import advanced technology and equipment, and improve and upgrade their own technical prowess. Here is a good example: "The textile industry in the Changde area has reached an agreement with its counterpart in Shanghai to undertake joint projects in export to earn foreign exchange, make joint investments to expand production capacity, and develop ramie products jointly. Such cooperation is unprecedented in scale, scope, and level" (as reported in HUNAN RIBAO, 26 October 1986). All small and medium-sized cities have their own strengths. Take the southern gateway, Chenzhou Shi, for instance. With its proximity to the Zhu Jiang delta in Guangdong, a megalopolis of over 14 million people, the city is well placed in a strong economic region and has ample natural resources nearby. The western gateway, Huaihua Shi, does not fare as well as Changsha, Zhuzhou, and Xiangtan in economic location, but it is accessible to the national railway system and abounds with natural resources. Moreover, located as it is near the Wuling mountains, an economically depressed area that straddles four provinces--Hubei, Sichuan, Guizhou, and Guangxi, it offers relative technical and economic advantages. The northern gateway, Yueyang, is situated on the Beijing-Guangzhou Railway and borders Chang Jiang, controlling shipping on Xiang Jiang, Zi Jiang, Yuan Jiang, and Li Jiang. Within the city, Chenglingji is a typical land-and-water coordinated transport port. With its excellent transportation and water resources, and teeming with agricultural produce in the area, Yueyang can basically rival Wuhan. Liling Shi, the eastern gateway, boasts booming township and town enterprises. Together with cities like Liuyang and Chaling, it has developed an edge in such industries as fireworks, firecrackers, china, and food, has chalked up rapid economic growth, and is fairly competitive on the foreign market. In short, although these cities are no match for Changsha, Zhuzhou, or Xiangtan in material and technical foundation as yet, their economic growth rates are every bit as fast. In the growth rates of both the gross value of industrial output and local revenues, for instance, they have demonstrated their strength (see Table 1).

Table 1. Comparison of the Economic Growth of Certain Cities in Hunan in 1985 With 1980
(in 10,000's of yuan)

Item of Comparison		Location						
		Changsha Urban Area	Zhuzhou Urban Area	Xiangtan Urban Area	Binzhou Huaihua	Yueyang Urban Area	Liling	
Gross value of industrial output	1980	218,176	158,303	147,459	29,063	6,128	152,469	21,693
	1985	324,521	244,714	208,353	48,949	12,449	209,595	37,105
	1985 as % of 1980	148.7	154.6	141.3	168.3	203.1	137.5	171.0
Profits, taxes of enter- prises practicing independent accounting	1980	39,456	25,795	27,850	9,776	212	-	3,825
	1985	62,409	49,977	41,902	19,103	3,249	65,595	5,435
	1985 as % of 1980	158.1	193.7	150.5	195.4	1532.5	-	142.1
Local revenues	1980	35,841	18,494	13,364	8,146	1,170	5,269	3,636
	1985	49,621	22,672	23,397	3,833	1,992	9,489	5,887
	1985 as % of 1980	138.4	122.6	175.1	47.1	170.3	180.1	161.9

Source: "Hunan Province Industrial and Transportation Statistical Yearbook 1981," "Hunan Statistical Yearbook 1986," Hunan Statistical Bureau.

Be that as it may, we must work to coordinate and achieve a division of labor among the various functional economic regions and urban systems in the province. Otherwise, many fresh problems will arise in the course of regionalization and urbanization that may impede economic development. For instance, there are separate industrial systems in the Changsha-Zhuzhou-Xiangtan megalopolis each going their own way, plants are widely scattered, and factory duplication is very serious. From large enterprises like iron and steel works to small plants making television sets, plastics, electric fans, semiconductors, and radios, overlapping in plant construction is widespread. The upshot is either a shortage of raw materials and energy or uncompetitive products. To cite another example, cities like Chenzhou, Lengshuitan, Huaihua, and Yueyang have all been importing technology and equipment with alacrity. If we fail to draw up a province-wide plan soon, they are likely to duplicate existing projects in Changsha, Zhuzhou, Xiangtan, and other cities which have a firmer economic base, and compete with them for raw materials and markets. Conflicts may even arise among cities along the provincial borders themselves. Furthermore, long-term economic results should be the starting point in our deliberations on what to do about obsolete poorly-planned plants which have neither raw materials nor energy (e.g., Xiangtan Iron and Steel Works). We should study them closely and deal with them sensibly. In addition, we should make the development of township and town enterprises a priority, site small towns properly in accordance with economic trends and the regional distribution of resources, and speed up small-town development. All this has special implications for promoting regionally balanced economic growth in Hunan. Unlike Jiangsu, where the development of township and town enterprises was fueled by development poles like Shanghai and Nanjing, Hunan can only take a two-pronged approach--focusing on the processing of local resources, supplemented by the distribution of urban products. (Footnote 1) (Tan Chongtai [6223 1504 0669]: "Developmental Economics," People's Publishing House, 1985. The concept of "developmental pole" was put forward by French economist Francois Peroux and others. He believes that development does not take place at the same rate in every area. On the contrary, the momentum of economic growth is often concentrated in various dominant sectors at different points in time and that innovative industries are clustered in certain areas. Moreover, dominant sectors and innovative industries are often congregated in large urban centers, turning these centers into development poles. From the poles emanate trickle-down effects that will influence their extensive environs.) As for economic development in "old liberated areas, places inhabited by minority nationalities, border regions, and depressed areas" in the mountains, that requires a special strategy. Right now we should try to eradicate poverty in the stockaded villages as soon as possible and concentrate on the development of township and town enterprises with regional flavor. These are urgent matters. A particularly pressing task is to satisfy the basic needs of people living in villages in drought-stricken mountains and highlands in the karstic regions in northwest Hunan. Although northwest Hunan is not densely populated, there are far too many people in the region in relation to its environmental capacity under the present economic and technical levels. Places unfit for human settlement--beaches, floodplains, diluvial deltas, steep cliffs along river banks (with houses projecting over the water), slopes without water, and karst--are all inhabited. This situation can be found in Yongshun, Cili, Baojing, Huayuan, Fenghuang, and other counties.

To sum up, economic development in Hunan must be based on province-wide comprehensive planning as well as the promotion of prosperity in individual areas. It would be a very slow process to wait for Changsha-Zhuzhou-Xiangtan to grow into a megalopolis teeming with millions before we pay attention to border economic growth. To do so will not only ignore Hunan's characteristics--numerous small and medium-size cities and few outside cities--and clear economic geographical advantages, but also militate against the long-term development of the Changsha-Zhuzhou-Xiangtan region. When population density becomes so high that it exceeds what the urban infrastructure can bear, inevitably a host of intractable social problems will arise: lack of housing, water and energy shortages, environmental pollution, and traffic congestion. These days it is all the rage in many developed nations to transform the downtown of many a big city, turning the urban core into pedestrian precincts and parks. A notable example is the large-scale relocation of factories from Tokyo, Japan. The extensive exchange of houses in Beijing, Shanghai, and Tianjin also reflects the serious social problems in oversize cities. Why then should we repeat past mistakes? As we all know, electricity consumption by Changsha, Zhuzhou, and Xiangtan accounts for one-quarter of the total load of the provincial electric network, yet the cities' own generating capacity satisfies only about 40 percent of their need. They are also dependent on external supplies of ores, coal, rolled steel, and other raw materials. Why then should we exacerbate their severe energy and raw materials shortages? Even food, light, textile, and clothing industries should not be totally concentrated in the Changsha-Zhuzhou-Xiangtan "golden triangle" because they are raw material-based industries, not technology-intensive ones. Moreover, they cater to an extensive market so that a little dispersal will only help bring out their strength in resources and markets. At present, therefore, we must certainly take pains to advance science and technology and utilize resources in the "golden triangle." Even more important, we must strongly support scientific and technical progress in other small and medium-sized cities in the province and make the most of resource strengths in various functional economic regions. This is the best strategy to vitalize Hunan's economy because it takes into account the nation's three major economic belts and revolves around the Wuhan and Guangzhou economic regions. To put it differently, it is an open strategy that is cognizant of the characteristics of economic regions within the province as well as the influence of the larger economic environment on Hunan. In short, only when we come to grips in our actions with a regional economic development strategy for Hunan can we make the best policies.

3. Economic Sectors of Strategic Dominance

As for selecting sectors for priority development--setting industrial priorities, that too is very important for Hunan's economic strategy. This is because investment priorities, preferences in the allocation of qualified personnel, and other policies are all based on industrial priorities. In light of the situation in the province and other resource, technical, and social conditions, both domestic and international, I believe Hunan's dominant sectors can be divided into three groups--present, potential, and strategic. Potentially dominant sectors are exactly the pillars of Hunan's economy today, such as paddy and hog-raising in agriculture, and machinery, food, chemicals, metallurgy, textiles, and building materials in industry (see Table 2).

Table 2. Hunan Products That Are Nationally Dominant

Category	Product	Unit	Output	% of Nat. Output	National Ranking
Agri-cultural products	Paddy	10,000 tons	2338.76	13.9	1
	Ramie	10,000 tons	2.73	33.4	1
	Tea leaves	10,000 tons	7.77	18.0	2
	Hogs slaughtered	10,000	2457.88	10.2	2
	Oranges and tangerines	10,000 tons	14.08	7.8	4
	Grain	10,000 tons	2514.28	6.6	4
	Flax	10,000 tons	33.17	8.1	4
	Rapeseed	10,000 tons	34.31	6.1	5
	Flue-cured tobacco	10,000 tons	13.02	6.3	5
	Sugar-cane	10,000 tons	147.84	2.9	7
	Aquatic products	10,000 tons	31.99	4.5	8
	Cotton	10,000 tons	10.11	2.4	9
Industrial products	Cigarettes	10,000 crates	198.21	8.4	5
	Ferroalloy	10,000 tons	10.02	6.7	5
	Sulfuric acid	10,000 tons	51.77	7.7	5
	Plate glass	10,000 heavy crates	295.39	6.0	6
	Internal combustion engine	10,000 kw	295.52	6.4	7
	Caustic soda	10,000 tons	10.63	4.5	8
	Leather shoes	10,000 pairs	981.07	4.2	8
	Cement	10,000 tons	761.60	5.2	9
	Metal cutting machine tool	10,000 pieces	0.54	3.2	10
	Machine-made paper and cardboard	10,000 tons	45.48	5.0	10

Source: Hunan Statistical Yearbook, 1986

Potentially dominant sectors are sectors with economic potential that cannot be fully tapped at the moment because conditions are not yet ripe for such exploitation. Examples are nonferrous metal and nonmetallic industries, transportation, and tourism. Strategically dominant sectors may or may not be leading industries today. From the perspective of the province's long-range economic interests, however, they will be the permanent mainstay of Hunan's economy. Among them are food, light, and textile industries as well as such traditional arts and crafts as fireworks and china. Why are they chosen as the province's strategically dominant sectors? For these reasons:

First, these sectors are all characterized by low investments, fast payoffs, and high returns. It has been estimated that "for every 100-million-yuan increase in output value, the machinery industry in the province needs 70 million yuan in government investments, compared to just a little over 20 million yuan in the food industry. In 1984, among public-owned industrial enterprises that had adopted independent accounting, 82.72 yuan in output

value were realized for every 100 yuan worth of fixed assets in the machinery industry, compared to 329.12 yuan in the food industry." (Footnote 2) (Hunan Province Statistical Yearbook, 1986. Edited by Hunan Statistical Bureau, published by Hunan Publishing House)

Second, all these sectors have plentiful resources and will not experience raw material shortages in the short run because Hunan is equipped with the world's best agricultural resources and conditions to develop these sectors. Simply put, most of the province is in the tropical broad-leaf, red-earth zone. Its average annual temperature is 15-18 degrees centigrade and its average annual rainfall, 1,300-1,600 mm. Its highest monthly temperature ranges between 26 and 30 degrees centigrade, its lowest monthly temperature, 4 and 6 degrees centigrade. It receives from 170 to 250 mm of rainfall in the wettest month, 30 to 60 mm in the driest month. By and large Hunan's is a hot and humid environment where the growth volume of vegetation may reach 4,000-5,000 quintals per hectare and where the landscape changes markedly from season to season, thus providing agricultural crops with a variety of environments. Add the province's four distinct altitudinal landscapes, from the lowest point to the highest--tropical zone with red earth and broad-leaf forests, mixed tropical and temperate zone with yellow earth, temperate mountain zone with deciduous broad-leaf forests and yellowish-brown earth, and, at the top, temperature windy zone with scrub bushes on the slopes and yellowish-brown earth, and the result is an environment extremely rich in agricultural resources. Such an environment cannot appear in high-altitude areas because of their low temperatures, nor in low-altitude areas in the tropics because of their high temperatures. With its hot humid climate, for instance, Brazil does not produce as wide a range of agricultural crops as Hunan because the seeds of some crops, such as the mustard crop, cannot be stored for planting next season without low temperatures. As far as nations are concerned, only the United States resembles China somewhat in its natural agricultural conditions. That nation, however, has far fewer hot and humid spots than China. Within China itself, only the Sichuan Basin, Jiangxi, Hubei, Anhui, southern Jiangsu, Zhejiang, Fujian, Guangdong, and Guangxi are comparable to Hunan. Of these, the Sichuan Basin, Hunan, Jiangxi, and Hubei are the finest agricultural environments. That is why we say Hunan boasts the world's first-rate agricultural resources. We can see the national standing of Hunan's major crops in terms of output by referring to Table 2.

Third, located in a densely populated region in the country, Hunan is surrounded by vast consumer markets, which should help the development of the strategically dominant sectors.

Fourth, these sectors' technological complexity and energy requirements are relatively modest. Dephosphorization and embedding in iron smelting, multiple processing in the nonferrous metal industry, cutting in the non-metallic industry--all these processes are much more complex than those in food, light, textile, and clothing industries, and consume much more energy. Besides, Hunan's climate changes notably from season to season, which should encourage the development of a full lineup of products in the food and clothing industries and aid their sale and marketing. These industries, therefore, may be able to serve as forerunners for other industries, most of which do not

have the characteristics mentioned above. As Comrade Gu Yuntian [0657 0061 1131] and Comrade Xi Qingyan [1598 7230 1484] said, "Hunan's meager ability to process agricultural products is a weakness. But its industrial and agricultural production upstream is a strength, so the weakness actually provides an opportunity for Hunan and can be turned into a plus. Still, if we are to translate the province's ample nonferrous metal reserves into a strong iron smelting industry, we cannot but ponder on the constraints imposed by one of our weaknesses: lack of energy. The 20 percent shortfall in Hunan's energy supply cannot be made good in the short run. On the other hand, a big part of Hunan's industrial mix comprises heavy energy users; in relative terms, Hunan has too many chemical and metallurgical plants. Synthetic production alone consumes 11.6 percent of the province's total electric generating capacity and about one-tenth of its total coal output. Within the non-ferrous metal industry, mining capacity is smaller than ore dressing capacity, which, in turn, is smaller than smelting capacity. Yet there is a higher smelting capacity than multiple processing capacity. As a result, Hunan industry consumes more energy than its counterpart in Henan and uses 50 million more tons of coal than Jiangsu. But Jiangsu far outpaces both provinces in output value. It is imperative, therefore, that we reorient Hunan's industrial structure in the direction of low-energy-consumption and high-output-value industries." (Footnote 3) (Henan Economic Research Center Annual Report, 1985, edit. by the editorial committee of the Hunan Economic Research Center, March 1986) Can we turn to new knowledge-intensive industries that consume little energy, such as electronics, the production of sophisticated electric appliances, and the manufacture of small or compact cars, and make them the pillars of Hunan's economy? To me, that too would be unwise because Hunan has little of the technical expertise these industries require. According to 1984 data, "there are 318,000 professionals in the fields of natural science and technology in Hunan, a mere 0.54 percent of the province's total population, lower than the national average of 0.67 percent." (Footnote 4) (He Xiangchu [6320 3276 2806]: "Comments on the Implementation by Hunan of the Decision by the CPC Central Committee Concerning Scientific and Technical Structural Reform," presented at the Hunan Scientific and Technical Work Conference on 11 November 1985) Hunan's lack of skilled personnel is more acute than people imagine. On a per capita basis, it is only marginally better off than Henan, which has the lowest level in the nation. Hunan's electronics industry, for instance, is not a leader in China. The Ministry of Electronics Industry has designated Beijing, Shanghai, Jiangsu, and Guangdong as bases for the nation's electronic industry. RENMIN RIBAO ran a special report on this on 17 July 1986: "After in-depth studies and research, the Ministry of Electronics Industry has decided jointly with the parties concerned to develop the two cities of Beijing and Shanghai and the two provinces of Jiangsu and Guangdong as bases for the nation's electronics industry. The decision was made in light of the fact that the electronics industry there has reached a fairly high standard and that the four locations are well equipped to develop accessory industries and have a high concentration of intellectual resources. The bases must not only manufacture high-quality high-standard products able to hold their own on the international and domestic markets, but also serve as the fountainhead from which the industry's technology, products, expertise, and information emanate." (See Table 3)

Table 3. An Overall Evaluation of the Various Sectors of Hunan Industry
(1984 data)

Item	Overall Evaluation Index	Sector					
		1*	2*	3*	4*	5*	6*
Metallurgy	1.80	3	3	2	2	1	1
Electric power	2.15	2	3	1	2	3	2
Coal and coking	1.55	2	3	1	0	3	2
Petroleum	2.90	2	2	4	5	1	2
Chemistry	2.55	4	3	2	2	3	2
Machinery	2.45	5	2	2	2	2	2
Building materials	2.25	2	3	2	2	3	2
Forestry	2.60	2	2	2	2	3	4
Food	4.55	4	3	5	5	5	4
Textiles	3.05	3	2	3	2	4	4
Sewing	3.20	2	2	2	2	5	5
Leather	3.00	2	3	3	2	4	4
Paper-making	2.80	2	2	2	2	4	4
Cultural, educational, artistic articles	2.80	2	2	2	2	4	4
Weight	-	0.15	0.05	0.10	0.30	0.20	0.20

Key:

- 1* Gross value of industrial output
- 2* Ranking among similar sectors in the nation
- 3* Output value realized for every 100 yuan in fixed assets
- 4* Profits and taxes realized for every 100 yuan in fixed assets
- 5* The extent to which resources are guaranteed
- 6* Difficulty of technical development

Remarks:

1. Method of evaluation: 1) Evaluating the first four items:

a. Calculate the average values and standard of deviation:

$$\bar{x} = \frac{\sum_{i=1}^n x_i}{n}, \quad s = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n-1}}$$

b. Determine evaluation standard and assign a point:

Index value	Point	Index value	Point
$< (\bar{x} - 2S)$	0	$\bar{x} - (\bar{x} + S)$	3
$(\bar{x} - 2S) - (\bar{x} - S)$	1	$(\bar{x} + S) - (\bar{x} + 2S)$	4
$(\bar{x} - S) - \bar{x}$	2	$> (\bar{x} + 2S)$	5

2) Experts' evaluation methods are used to determine points for the last two items

2. Overall evaluation index:

A = (a_{ij}) a_{ij} is the point for "j" in sector i

B = (b_j) b_j is the weight for "j"

C = (c_i) c_i is the overall evaluation index for "i"

$C = A \cdot B = (a_{ij}) \cdot (b_j) = (c_i)$

To sum up, it is not hard to see the logic of selecting the food, light, textile, and clothing industries and traditional arts and crafts as Hunan's strategic sectors.

Toward that end, we must support the strategically dominant sectors with preferential treatments in funding and technology and, what is more, adjust the sectors and regional industrial structures. That is, the regional industrial structures must be adapted to the resources and technology of the functional economic regions. In the course of adjustment, we should not pursue things too advanced for the basic framework. Instead, we must proceed from the highest economic results at present. "Of all technology and equipment imported by Hunan in 1978-84, only 72 pieces, or a mere 15.06 percent of the total of 478, went to food and textiles, two major industries with the best economic results." (Footnote 5) (Li Changkang [2621 1603 1660], Chen Aoxiang [7115 1159 4382], and Zhang Hong [1728 4767]: "Report of the Inquiry Into Technology Importation by Hunan," March 1986, p 15. Hunan Scientific and Technical Information Research Institute) Clearly their share is too low and should be revised. In addition, it will also be strategically meaningful to develop the tertiary industry as appropriate.

Needless to say, we must not slacken our efforts to develop existing dominant sectors. This is because if we do not make use of existing strengths in agriculture and the machinery, metallurgical, chemical, and the building materials industries, we will not be able to create strategically dominant sectors. The basis of a food industry, for instance, is none other than big agriculture; in the absence of a strong agriculture, there will be no strategically dominant food sector. Therefore we must keep up our superiority in agriculture and treat agriculture in the mountains, on the hills, between the crisscross of rivers, and in the outskirts of cities with different measures tailored to their respective characteristics. A strategic step in developing Hunan's agriculture is to increase the proportion of dry grains. As far as heavy industry is concerned, we must go all out to tap potential and transform enterprises to improve their quality. While the extensive approach is out in heavy industry, we must continue to make related investments in it, otherwise there will be no guarantee that strategically economic sectors will come into existence. As for the full exploitation of potentially dominant sectors, that must wait until after Hunan has reached a higher level of economic, social, and technical development. This is not to say that we do not take them seriously or will not develop them. It is just that we temporarily put off targeting them.

Although we make strategically dominant sectors our priorities, it does not mean that we will not develop other sectors and certainly not that we do not want economic regions with their own characteristics. After all, the development of strategically dominant sectors is premised on regional economic growth. The strategically dominant sectors mentioned above are nothing more than the pillar industries in most functional economic regions in the province.

In brief, then, we must exploit other functional economic regions in the province as well as pay attention to the role of the Changsha-Zhuzhou-Xiangtan megalopolis, make strategically dominant sectors our priorities without ignoring existing and potential strengths, and take note of the impact of the larger economic environment on Hunan's economy in addition to the characteristics of various economic regions inside the province. Such is the basic strategy of economic vitalization for Hunan. Above all, we must keep an eye on the overall economic interactions among the various economic regions in the province, which holds the key to everything else. In so doing, we will be better placed to utilize regional resources across the board and prevent sectors from neutralizing one another's economic gains.

What is more, as society and the economy develop rapidly, urban-rural relations become more and more intimate, living standards improve notably, and people's ideas and concepts too undergo profound changes. Some people, however, still cling to the past and, proceeding from deep-seated small-production ideas and traditional natural economic notions, criticize the commodity economy and the socialist economic principle of distribution: from each according to his ability, to each according to his work. They obstruct and even sabotage the implementation of this principle. Not only can one hear in the cities all kinds of talk opposing the abolition of egalitarianism, but acts of sabotage against distribution according to work are common in the countryside; tangerine orchards or fish ponds are frequently looted by mobs. Consequently, Hunan must urgently adhere to the four cardinal principles firmly, intensify the building of the socialist spiritual civilization, modernize its thinking, keep up such fine traditions as building up the country through thrift and hard work, formulate policies in line with its approach, and establish a scientific management system. Only thus can it achieve rapid economic growth.

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SOLUTIONS OFFERED TO PROBLEM OF WORKING CAPITAL SHORTAGE

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 2, 20 Feb 87 pp 48-49

[Article by Cheng Youren [4453 0645 0088]: "How To Solve the Problem of a Severe Shortage of Working Capital in State-Owned Enterprises"]

[Text] The severe shortage of working capital in state-owned enterprises in Yunnan hurt production during the first quarter of 1982. This is a major problem in current economic work, and it is also a problem urgently in need of solution. Throughout the province there is a severe shortage of working capital in state-owned enterprises. When working capital for state-owned enterprises was turned over to bank management in accordance with a ruling by the State Council in 1983, a full check was made that found state appropriation of working capital amounted to only 56.72 percent of the total amount designated for use, a shortfall of 43.78 percent [as published] businesses, state appropriated working capital amounted to only 29.7 percent of the total, a shortfall of 70.3 percent. The reason for the severe shortage of working capital, the great shortchangings that have occurred over the years aside, has been a steady expansion of capital construction in recent years. Prices of some raw and processed materials have risen, and the amount of working capital needed has steadily increased. The need to write off working capital also took away a portion, creating a problem in two regards. One was a steady expansion of production requiring a corresponding year-by-year steady increase in working capital; the other was no increased appropriation of working capital for many years and consequently a year-by-year reduction in the amount available. The development of two extremes caused the problem to become conspicuous and then severe, requiring that a solution be found that is consistent with the realities of economic development so as to avoid hurting economic development.

1. Readjustment of the Ratio of Investment in Fixed Assets to Liquid Assets

An enterprise's fixed assets and liquid assets are necessary requirements and an integral part of social reproduction. An enterprise has to have a certain amount of fixed assets and liquid assets in order to carry out normal production. In the actual production process, a large amount of fixed capital is used; it turns over slowly; it is used for long periods, and it is recovered year-by-year through depreciation. The amount of working capital

used is small; it turns over quickly; it is used one time; and it is recovered once. There should be an equitable ratio between the two based on the needs of social reproduction that enables a normal turnover of capital to advance the development of production. One of the main reasons for the current severe shortage of working capital in state-owned enterprises is the imbalance in the proportional relationship between the two. There is too much fixed capital and too little working capital. Usually attention is given to investment in fixed assets in the building of the economy to the neglect of investment in liquid assets; vigorous action is taken on fixed assets, but liquid assets are not given serious attention. Attention only to investment in fixed assets to the neglect of investment in liquid assets in developing production makes productivity impossible, and makes attainment of the goal of an expansion of production impossible too. Just what proportional relationship should exist between fixed capital and working capital to meet needs for development of production? Practice during more than 30 years of building the economy in China shows the proper ratio to be approximately between 1:0.40 and 1:0.50. The actual situation in Yunnan Province today is that in a few enterprises in which the situation is a little better than in others, the ratio is between 1:0.30 and 1:0.40. In most enterprises it is between 1:0.20 and 1:0.30. In the less favored few enterprises it is between approximately 1:0.10 and 1:0. In very many enterprises in Yunnan Province, the amount of working capital is extremely inadequate. In 1985, 4.8 billion yuan was appropriated for fixed assets for the whole province, a 1.5 billion-yuan increase over 1984 for a 45.9-percent increase and exceeding the 23.5-percent speed of increase in working capital as well as exceeding the 11.8-percent speed of increase in the output of industry and agriculture. During this period, there was no increase in the working capital of state-owned enterprises. On the basis of the ratio that historical realities in the building of socialism have shown to be necessary, there should have been a 2.4 billion-yuan increase in working capital. However, not only was there no increase in these funds, but the 7.2 billion yuan that was used for investment in fixed assets and to expand fixed assets further increased the shortage of working capital by 1.2 billion yuan. As a result, a 3.6 billion-yuan gap in working capital was created that caused very great difficulties in working capital for production. In some enterprises, there has been no increase in working capital appropriations for more than 10 years. They have had to rely entirely on bank loans to maintain production operations. Were enterprises able to increase working capital by 3.6 billion yuan to keep in step, the operating situation of enterprises would take a turn for the better.

Investment in fixed assets has increased too rapidly at the present time. Capital construction has shot up to exceed the speed of economic development. The extent of capital construction should be strictly controlled. In the future, all units should be firmly prevented from investing only in fixed assets without correspondingly increased investment in liquid assets so as to avoid further expansion of the proportional gap. The State Council has pointed out repeatedly the need to control the amount of capital construction, but it has never been brought under control and continues to increase. This is the nub of the problem. When production and capital construction conflict with each other, the production problem should be solved first. Production should be first, capital construction second. This is a cardinal principle in the building of the economy. The overly rapid increase in investment in fixed

assets has hurt the development of production. Work should be done to solve the problem of investment in working capital in order to shorten the gap and bring the ratio into line to help the expansion of production. The shortchanging of working capital over the years has created a very large gap that cannot be closed all of a sudden. Appropriate means will have to be studied for a gradual augmentation.

2. Increase Results From the Use of Working Capital by State-Owned Enterprises

Statistics from the last half of 1986 for industrial enterprises all over the province show an increase over the same period in the previous year of 5.7 percent in the GVIO, a 10-percent increase in taxes and profits, a 14-percent slowing in the revolving of funds, a 12-percent decline in profits, a 13-percent increase in the extent of enterprises losses, and a 22-percent increase in the amount of money lost. Statistics from a portion of enterprises show a 48-percent increase over the same period in the previous year in the use of the designated amount of working capital. This included a 31-percent increase in reserve funds and a 65-percent increase in funds tied up in finished products. The output value capital rate was 34.6 yuan versus 25.44 yuan for the same period in 1985, an increase of 36 percent. Increased effectiveness from the use of working capital using a relatively small amount of capital to do a fairly large amount of work requires, first of all, greater control over working capital. Increase in effectiveness from the use of capital, acceleration of the turnover of funds, decreasing the amount of time they are used, and using them sensibly helps the development of production and of operations. Second, the problem of tying up too many reserve funds requires an earnest inventorying of materials with prompt action taken on those in excess of normal requirements, those for which much has been budgeted but little spent, and those that have been saved to achieve sensible reserves and a sensible use of funds. Next, a sharp rise has taken place in the amount of funds tied up in finished products, with problems existing in a smooth flow from production to marketing. Forces should be organized and every means used to sell products in order to reduce the amount of funds tied up in them. Fourth, there should be a reduction in funds required for final settlements. Enterprises are seriously in debt to each other, and active steps should be taken to clear accounts to recover some funds to satisfy production needs. Finally, some enterprises have heedlessly expanded capital construction, diverting working capital for the purpose. This should be resolutely halted and promptly dealt with.

3. Full Use of the Role of All Economic Sectors To Control and Regulate Working Capital

Working capital is insufficient in all state-owned enterprises in the province, but active control and regulation by all economic sectors has ameliorated the conflict between supply and demand for working capital, and has promoted the development of enterprise production and business. This year the financial sector adopted a policy of preferential treatment for active enlivening of large and medium-size enterprises, instituting reduction or exemption of adjustment taxes and income taxes for some enterprises, increasing the depreciation rate for enterprises' depreciation fund, liberalizing policies for pre-tax refunds, and loaning revolving funds to

needy enterprises, relieving the need for capital by more than 150 million yuan. The banking sector tightened control over enterprise credit and working capital, thereby raising the effectiveness of funds. Banks actively accumulated capital to support development of production. During 1985, city and town savings increased 3 billion yuan, up 24 percent. Enterprise savings increased 1,002,000,000 yuan for a 29.7-percent increase. The balance of loans outstanding totaled 5,202,000,000 yuan. This included 4 billion yuan in working capital loans to industrial and commercial enterprises, which substantially solved their needs for operating funds. In addition, banks also tightened control over working funds in state-owned enterprises to make the use of capital more effective. Statistics for state-owned enterprises throughout the province in 1985 show an 18.9-percent rise over the previous year in GVIO, an 18.2-percent increase in sales revenue, a 17.7-percent increase in profit, and a 1.05-percent acceleration in the turnover of working capital. Output value per 100 yuan was 28.65 yuan, 2.05 percent less than in 1984. Sales earnings per 100 yuan were 26.67 yuan, 1.36 percent less than in 1984. Control and regulation of funds in state-owned enterprises by the financial sector throughout the province played a major role in improving economic results. More work will have to be done as reform of the economic system requires. The financial sector will have to control the amount of capital construction, tighten investment in fixed assets, increase investment in liquid assets, and revive the system of year-by-year increased appropriation of working capital for enterprises. A portion of capital surpluses will have to be used to augment working capital for enterprises. The monetary sector will have to accumulate funds energetically to support the expansion of production. There is currently a shortage of loan funds and increase in city and town reserves and enterprise savings cannot satisfy needs for the development of production; active efforts have to be made to increase the sources of loan funds. Possibly not all annual interest earnings should have to be surrendered to the state, 80 percent being retained, all of it being used, after deducting expenses, to augment the credit fund. Economic ties should be developed; there should be a flow of capital back and forth, money markets should be opened and commercial demand drafts should be accepted to help enterprises clear up loans that are in arrears. All sectors of the economy should actively help enterprises solve the problem of a severe shortage of working capital to advance production and development of the economy.

4. Enterprises Should Actively Augment Their Own Working Capital

State-owned enterprise's are independent operating and accounting units that should have a certain amount of fixed capital and working capital. Working capital of their own is the main part of capital for enterprise production operations and is not partly supplied by bank loans. Only when an enterprise has ample capital can it operate independently, have self-determination, have a basis for handling problems in its work, and enhance its ability to meet emergencies in production. Enterprises are currently entirely dependent on the state for the appropriation of funds, and when the state has difficulties, it cannot meet these needs entirely. When banks are depended on entirely for loans, should they not have sufficient credit funds, they will be unable to completely satisfy needs. When enterprises rely on their own accumulations for working capital, and when enterprises accumulate funds themselves, this is

the most reliable assurance for being able to engage in production. The state prescribes that enterprises provide a certain ratio of capital for production. For state-owned industrial and transportation enterprises, it is 70 percent; for materials supply and marketing enterprises, it is 50 percent; for commercial primary and secondary wholesale stations, it is 20 percent; and for newly founded enterprises, it is 30 percent. Numerous enterprises do not meet these standards today and have to strive to accumulate their own capital. One source of capital accumulation is the withholding of between 10 and 15 percent from the production development fund to build up capital. In 1984, individual enterprises built up a total of 10.08 million yuan as their own working capital, and in 1985 they went on to add another 31.07 million yuan in a 208-percent increase over the previous year, accounting for 4 percent of the total prescribed amount of working capital. The ratio of enterprises self-supplied working capital is fairly small because some enterprises retain little of their profits, with the result that their production development fund is miniscule and there is nothing to add to working capital. They should increase the ratio somewhat. This year it is required that working capital be increased out of retained after-tax profits. Enterprises having a low ratio of their own working capital will be required to add more at a rate of between 20 and 30 percent of retained after-tax profits. For the country as a whole, enterprises have been very active in augmenting their own working capital. Enterprises having a little capital under their own control should add to their own working capital, first of all, to create conditions for their own expansion of reproduction and expansion of operations and make a very great achievement. Yunnan Province has augmented its working capital rather slowly. Active efforts and serious attention are still required. In long-range terms, the augmentation working capital by enterprises is a primary way for enterprises to solve their capital problem, and it is also a fountainhead for enterprises to bolster their own ability to develop. Self-accumulation of working capital by enterprises is also a major component of economic system reform and for eradicating the problem of enterprises eating out of the large common pot of the country and the banks. It can solve the country's problems of insufficient funds for the four modernizations and make a contribution to the country. The state should either reward or provide certain preferential treatment or reduce or exempt from payment of fees for the use of capital those enterprises who themselves augment working capital to the stipulated ratios and standards, and banks should give them preference on receiving loans or preferential interest rates on loans.

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DEVELOPMENT OF INCOME TAX SYSTEM

Beijing ZHONGGUO SHUIWU [CHINA'S TAXES] in Chinese No 3, 12 Mar 87 pp 22-24

[Article by Xu Zenghong [1776 1073 1347]: "Tremendous Development of the Nation's Income Tax System"]

[Text] The substitution of taxes for profit delivery that China began on 1 October 1984 was not only a comprehensive reform of the nation's industrial and commercial tax system but also a tremendous development of historical significance for the nation's income tax system.

Income taxes are a tax on all the earnings of an entrepreneurial unit or individual from production, from labor and from property during a certain period of time. The income tax originated in England back in 1798, and during the mid-19th century, one after another, other countries adopted the income tax. Following World War I, numerous countries gradually established modern systems of taxation centering around the income tax. During the late Qing Dynasty, an income tax was proposed for China; however, it was not until October 1936, after many setbacks, that an income tax was formally levied. At that time, a tax was levied first on the salaries of civil servants and on income derived from negotiable securities and savings. Later on, the items subject to tax were gradually expanded to include all salary income, income from the rental of property, income from profit-seeking enterprises, and one-time income. During the period of the War of Resistance to Japan, an "emergency period excess profits income tax" was levied, which was changed to a "special excess profits income tax" at the conclusion of the War of Resistance.

Following the founding of the new China, the old income tax code was abolished, and in January 1950 the people's government promulgated "National Tax Enforcement Regulations," which established a new people's tax collection code. There are 14 uniform industrial and commercial taxes nationally, those pertaining to income taxes being the industrial and commercial income tax, the salary income tax, and the savings interest income tax. The salary income tax has never been collected, and the income tax on savings account interest was collected until 1959, at which time collection was halted when banks lowered interest rates. Only the industrial and commercial income tax continues to be collected. Ever since 1950, the law regulating collection of the industrial and commercial income tax has been "Temporary Regulations on Industrial and

Commercial Taxes," which provides for the levying of taxes based on the amount of profits made. Inasmuch as state-owned enterprises have to pay profits, income taxes are collected only from privately owned enterprises, collective enterprises, the individual economy, and state-owned enterprises, or entrepreneurial units that do not pay profits.

Under present circumstances when many privately owned industrial and commercial enterprises exist, income tax payments may be simple or complex depending on circumstances, and a policy of dividing profits into four shares instituted, [income taxes for the state, welfare funds for the workers, public funds for the development of enterprises, and interest and bonuses divided among owners]. These taxes play an important role in the revival and development of the national economy, in the utilization, limitation, and transformation of capitalist industries and businesses, in the development of the socialist economy, and in evening out receipts and disbursements of public funds. During the 1985 reform of the tax code, though an independent kind of tax known as the "industrial and commercial income tax" came into being, the provisions of the income tax portion of the industrial and commercial tax code continued to be applied. In April 1963, "Trial Regulations on Readjustment of the Industrial and Commercial Income Tax Burden and Improvement in Collection Methods," promulgated by the State Council took effect. For many years, no formal industrial and commercial income tax law had been established. In summary, during the long period from 1958 through 1979, income taxes were typically collected from a restricted area and lacked a sound legal basis, and this limited the role of the income tax system.

The 3d Plenum of the 11th Central Committee pointed the direction for the building of socialism in China, including the development of various provisions regarding tax collection work. After conducting surveys and trials, the Ministry of Finance formulated a general concept for reform of the tax code, changing the existing unitary tax code into a composite multitiered, multilink, multitax tax code. In response to the policy of opening to the outside world, the "Income Tax Law For Sino-Foreign Joint Ventures," and the "Individual Income Tax Law" were promulgated and put into effect between 1980 and 1983. In carrying out the policy of enlivening of the domestic economy, a program of tax payments instead of payment of profits was tried out in more than 400 state-owned enterprises in one after another of a few score cities throughout the country. Next, the first step in a change to the payment of taxes instead of profits was instituted in 1983, the former system whereby state-owned enterprises paid profits to the state giving way to the payment of a 55-percent income tax, the after-tax portion being paid in the form of profits, a tax and profit payments system being maintained concomitantly. In October 1984, the second step in the conversion from the paying of profits to the paying of taxes, and in reform of the industrial and commercial tax code was applied across the board. The crux of this reform was a change from the system whereby state-owned enterprises had always paid profits and whereby a system of both tax payments and profit payments existed together to a system of payments to the state entirely in the form of enterprise income taxes. "Income Tax Regulations for State-Owned Enterprises (Draft)" and "State-Owned Enterprises Adjustment Tax Collection Methods" were promulgated and put into effect. As reform of the economic system progressed, in response to needs in development of a planned commodity economy, 1985 and 1986 saw the promulgation

and implementation of "Temporary Income Tax Regulations for Collective Enterprises" and "Temporary Income Tax Regulations for City and Town Individual Industries and Businesses." At the end of 1986, "Temporary Regulations on Individual Income Adjustment Taxes" was additionally promulgated. Thus, when taken together with the three income tax regulations applying to foreign nationals, an income tax system made up of eight different taxes was formed. This was an unprecedented development of the country's tax code by leaps and bounds that plays an important function and has far-reaching significance for the four modernizations.

First, the change from payment of interest to payment of taxes is a major breakthrough in a theoretical understanding of the handling of economic relationships between the state and enterprises.

Following the 3d Plenum of the 11th CPC Central Committee, people realized that in a socialist commodity economy, state-owned enterprises are relatively independent economic entities and relatively independent commodity producers founded on state ownership. Consequently, even though ownership of the means of production resides with the state, the right to use the means of production in operations resides in the enterprises. The state can use tax collections to distribute the result of the operations of a commodity producer who enjoys the right to use the means of production in operations. State-owned enterprises are also obligated to pay taxes to the state and have the right to distribute and use after-tax profits. In no way does this hurt state ownership of the means of production. This breakthrough in economic theory brought about a transformation in the economic realm, linking the results of an enterprise's operations and its economic interests. This both helped increase the enterprise's internal dynamism and vitality, spurring it to enliven the economy, and helped consolidate and develop the system of state ownership. In addition, this theoretical breakthrough also caused state-owned enterprises to adopt diverse operating methods, to institute various kinds of economic responsibility systems, and to develop broad avenues.

Second, the change from payment of profits to payment of taxes more effectively stirred the enthusiasm for production of enterprises and enlivened the economy.

The change from payment of profits to payment of taxes legally defined economic relationships between enterprises and the state, expanded enterprise self-determination in conducting operations and making distributions. It not only enabled enterprises to promote various forms of economic responsibility systems internally to enliven the economy, but also severed a direct relationship between enterprises' and departmental or regional administrative organizations' economic interests, reduced direct interference by local administrative organizations at all levels in the economic activities of enterprises and helped enterprises to apply to the full their self-determination for the strengthening of enterprise administration and management. It helped develop specialized cooperative production and promoted lateral economic ties, and it improved the quality of enterprise operations and economic benefits. It also set the stage for acceleration of urban economic reform and the separation of government administration and enterprise management, and for streamlining government and delegating authority.

Third, the separate legislation for various kinds of income taxes benefited implementation of the policy of opening to the outside world.

The existing income tax system, which was gradually erected as progress was made in economic development during the new era since 1980, included six income taxes for enterprises and two individual income taxes. These were set up separately for different economic components and were in response to economic developments at the time each tax law was established, thereby forming an adaptable and flexible, as well as relatively strong, income tax code structure. Included was an income tax for Sino-foreign joint ventures and an income tax for foreign enterprises. These were two kinds of taxes on business income and on other income levied on Sino-foreign joint ventures and foreign capitalized enterprises set up in China to engage in production. They carried into effect the principles of protecting the national interest, lightening tax burdens, widening preferential treatment, and simplifying procedures. They helped in the active use of foreign capital to import new technology on a basis of equality and mutual benefit for the development of China's national economy. They also helped to guarantee fully the legal interests of investors while maintaining national sovereignty and economic interests. They also helped develop China's economic cooperation and technical exchanges with the outside world, and the handling of tax collection relationships among countries in an equal and mutually beneficial way. Individual incomes taxes are a form of tax levied on those who reside in China and earn income from inside and outside China, as well as on those who do not reside in China, but who earn income from inside China. In comparison with other countries, the tax rate is low, the amount of deductions liberal, the basis for levying the tax small, and calculations simple. In addition to helping international economic cooperation, technical exchanges, and maintenance of national sovereignty, it also helps adjust individual income and carries out the policy of an equitable tax burden. In addition, for investment by foreign traders in special economic zones and in areas opened to the outside world, there have been corresponding provisions for reduction or exemption from taxation, which provide much preferential treatment or a broad scale that are unprecedented. All of these things have greatly promoted smooth external economic intercourse.

Fourth, formation of the income tax system expanded the area of income tax collection, thus helping provide a steady increase in national public revenues. The change by state-owned enterprises from payment of profits to the levying of an income tax extended the income tax to the vast, new realm of state-owned enterprises. This greatly expanded the income tax collection area, thereby insuring a reliable source of public revenues. A new eight-bracket excess graduated tax rate applied to the income taxes of collective enterprises. This helped promote the strengthening of business accounting by collective enterprises and increased economic results. The levying of a city and town individual industry and business income tax on individual industries and businesses in cities and towns, which has now developed to encompass more than 17 million firms, has played a major role in making further use of the regulatory role of the economic lever of tax collection, and it has also equalized the tax burden, increased public revenues, and advanced the healthy development of the individual economy. In response to the new situation of

multiple channels for and imbalances in individual income, an individual income adjustment tax has been levied since 1987. Not only does this tax adjust income at all levels, but it helps stabilize and increase public revenues.

In summary, since the 3d Plenum of the 11th CPC Central Committee, China's income tax code has undergone major historical changes that has made it one of the two major pillars of the current tax system along with the tax on transactions. However, it must be realized that this tax code has been gradually developed in the course of reform of the economic system and reform of the industrial and commercial tax system, and that at the time it could not leapfrog historical realities to become the acme of perfection. Consequently, in addition to the necessity for implementing the prevailing several kinds of income taxes, it is also necessary to summarize practical experiences, to study constantly, to improve, to augment, and to perfect in order to meet changing circumstances in the rapid development of the economy and the need for pervasive reform of the economic system.

9432

CSO:4006/567

VICE MINISTER ADDRESSES FOREIGNERS ON INVESTMENT CLIMATE

OW191539 Beijing XINHUA in English 1217 GMT 19 Jun 87

[Text] Beijing, June 19 (XINHUA)--China is trying to create a more favorable environment to attract foreign funds and quicken the growth of the national economy, Zhang Haoruo, vice-minister of foreign economic relations and trade, told more than 1,000 foreigners here today.

The question China faces now, he said, is not whether China should make use of foreign capital, or encourage foreign investment in China, but how China can create a more favorable investment environment so that more foreign entrepreneurs can come to China to invest. Also, how to channel investment to the places where it is most needed and bring about the best possible economic results.

The foreigners from 52 countries and regions in the fields of finance, trade, industry and advertisement are attending the Third World advertising conference here.

Absorbing foreign capital, encouraging foreign entrepreneurs to make investments in China in particular, is a very important aspect of China's open policy, Zhang said. This is because it not only makes up for shortages of capital, a longstanding problem in the Chinese economy, but also brings China up-to-date in technology and management, he added.

Since China adopted the open policy in 1979, some 8,190 contracts for foreign-invested enterprises and offshore cooperation have been signed, totalling 19.67 billion U.S. dollars, according to statistics.

Besides, 17 countries have promised the Chinese Government loans or mixed loans of nearly nine billion dollars and cooperated in 249 projects.

Zhang pointed out that the state and local governments give priority to the development of energy, transport, communications, raw materials and basic public works in urban and rural areas. China encourages foreigners to invest in such projects.

Since it takes a relatively long time for these projects to produce returns, the state financial organizations will see that their demand for capital is guaranteed in the first place, Zhang said.

The construction of non-productive projects such as guest houses, hotels and entertainment centers will be curtailed. The construction of industries concerned with processing primary products will proceed in a selective and measured way, in order to prevent excessive investment in this respect, which is likely to cause a surplus of processing capacity and a shortage of raw materials and energy for more important undertakings, Zhang added.

The foreign investment structure has been remarkably improved. Of all projects approved in 1986, some 76 percent involved industry, agriculture, animal husbandry, fisheries, transport and communications.

As to the investment environment, Zhang said, since the promulgation of China's first foreign investment law--"the law on joint venture enterprises"--in 1979, great efforts have been made in formulating regulations concerning foreign trade and economic cooperation, and creating a favorable investment environment.

To solve problems in foreign-invested enterprises, the Chinese government worked out and issued "regulations to encourage foreign investment" last autumn, giving the enterprises preferential treatment in taxation, prices and means of production, and ensuring them managerial autonomy.

Many cities have set up foreign exchange coordination centers, service centers for foreign-invested enterprises and material-supply centers. Some provinces and cities have offices specially to help foreign-invested enterprises through formalities.

"But we are still not satisfied," Zhang said. "We'll keep trying to create a better investment environment to attract and make good use of foreign funds."

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CSO: 4020/231

CHONGQING'S EXPORT TRADE

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 8, 2 Mar 87 p 32

[Article in China Report Column by Chen Yuanhung [7115 0337 3163]:
"Chongqing's Exports Increased 50 Percent Last Year"]

[Text] Since Chongqing began to open up to the outside world in 1983 its foreign trade and exports have increased every year. In 1985 the city's own exports exceeded \$100 million; last year it reached \$150 million. At present Chongqing has business contacts with more than 90 countries and regions; Hong Kong, the Federal Republic of Germany, Japan, U.S., Great Britain, Saudi Arabia, and Czechoslovakia are Chongqing's major trade partners.

The principle of maintaining the finest quality and good reputation has won Chongqing's Cereal, Oil and Foodstuff Export Company, Textile Exports Company, and Foreign Trade Import and Export Company international awards for best quality and fine services; Chongqing's Emei Brand tealeaf won a gold medal at the the 22nd World Food and Beverage Awards Competition.

Chongqing is the largest industrial city in the southwest. Many factories are constantly improving the quality of their product, creating new products, and developing international markets. For example the engineering industry exported 27 major types of mechanical and electrical equipments, tools and machine fittings last year, which more than doubled the 1985 exports, in volume and in categories, and the products are sold in more than 30 countries and regions. Gear cutting tools produced by the Chongqing Tools Factory are selling well in the U.S. and Japan; its export last year more than tripled that of the year before.

Exports from the Chongqing light textile and chemical industries are also increasing. The dozen or so enterprises under the Chongqing Textile Industry Bureau exported goods worth over 200 million yuan last year. The Chongqing Asphalt Felt Plant is a small collective plant, and because it emphasizes quality its products are most reliable; its Langhua Brand asphalt felt is not only popular in the southwest provinces, it is widely sold in Southeast Asia, the Middle East, Hong Kong and Macao, and in the U.S.

Chongqing has a rich reserve of celestine and is well known as the mother lode of the world's industrial ores. Celestine has a high strontium content which

is an ingredient widely used in modern industries. Major consumers of strontium are the U.S. and Japan, and they are turning to Chongqing for their supplies. One of Japan's largest celestine buyers has already made a major purchase here.

In the area of foreign economic and technical cooperations, Chongqing has turned from the sole contracting of construction projects to comprehensive technological, facility and labor participations. Today Chongqing has more than a thousand people working overseas, and has signed contracts worth over \$50 million.

12986

CSO: 4006/491

NEW DRIVE TO BOOST TEXTILE, LIGHT INDUSTRIAL EXPORTS

Beijing JINGJI GONGZUO TONGXUN [ECONOMIC WORK NEWSLETTER] in Chinese No 5
15 Mar 87 p 20

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, the state has drawn up a series of policies to promote the production and export of textile and light industrial products. For various reasons, however, enterprises in the two industries still face many glaring problems--low level of profit retention and the lack of self-development and self-transformation capabilities, for instance. China's shares of total world trade in textiles and light industrial products remain very small at 4 and a mere 2 percent, respectively. Its exports are long on primary processed goods, semi-finished products, low-grade products, and popular merchandise of dependable quality, and short on finished products requiring multiple processing and upscale items in new colors, designs, and varieties. Product quality is poor, small-batch production is limited, and delay is neither prompt nor punctual. As a result, selling prices are depressed and Chinese exports are uncompetitive. To solve in earnest the problems facing the textile and light industries, speed up their development, and encourage enterprises to improve product quality, upgrade their products, introduce multiple processing, and sell their products at higher prices and earn more foreign exchange, the State Planning Commission, the State Economic Commission, and other agencies have recently proposed to adopt the following policies and measures in the spirit of the State Council as it seeks to take effective measures to nurture the textile and light industries and increase the vitality of textile and light industrial enterprises.

1. Increase investments in technical transformation. In 1987-1988, technical transformation loans at subsidized rates will be increased annually by 800 million yuan on top of what has originally been allocated in the plan for technical transformation in the textile and light industries. Moreover, 500 million more yuan will be set aside as loans in lieu of appropriations to finance capital construction. Most of this sum will be spent to build up enterprises in coastal textile and light industrial export bases and the production of merchandise requiring multiple processing in other key export enterprises.

2. Offer tax cuts or exemptions. From 1987, textile enterprises will be totally exempt from the regulation tax and enjoy a 1.35 billion yuan cut in

the value-added tax [VAT]. (To what extent the regulation tax on light industrial enterprises will be reduced is still under discussion.)

3. Set up an enterprise development fund. Starting in 1987, for every \$1 in foreign exchange it earns in excess of its foreign exchange earnings in the preceding year, an enterprise will be allocated 4 jiao from the enterprise development fund to finance technical transformation that key export-oriented enterprises must carry out in order to improve product quality and introduce multiple processing.

4. Raise the bonus levels. Under existing rules, for every \$1 an enterprise earns in foreign exchange, it will receive a reward of 3 fen if the foreign exchange earnings stay within the base of 1985, and 1 jiao if they exceed it. Depending on the actual added value resulting from multiple processing, an enterprise will receive a bonus of 4 fen on the average, up from the present 3 fen, for every \$1 in foreign exchange earned, as long as foreign exchange earnings stay within the 1985 base. The percentage of foreign exchange retained pro-rata by production enterprises will be raised from the present 12.5 percent to 16.5 percent on average. Bonus increases are primarily aimed at encouraging multiple processing.

5. When improvements in product quality, prompt deliveries, and other factors result in rising selling prices or lowered costs, a bonus may be offered, to be split between the industry and trade sectors, in proportion to the increase in exchange rates. This will first be carried out on a trial basis in the textile and light industries in Shanghai and Tianjin. After we become experienced, we will gradually expand the experiment.

6. Support the development of textile and light industrial machinery industries. In these industries, research and development [R & D] spending should be incorporated into production costs, as required under current rules. Beginning in 1987, leading textile machinery and equipment enterprises which undertake to manufacture key equipment will be required to contribute an amount equal to 2 percent of their sales of a new product R & D fund. We should use the technology-and-trade combination method to produce at home technically advanced textile and light industrial machinery which could not otherwise be manufactured domestically home. In importing the small number of vital components that must be imported, the existing tax policies of the State Council must be complied with. Where enterprises really have difficulties paying taxes, application may be made to have the import tariffs and import VAT reduced or waived.

7. Deregulate the prices of small articles and allow them to be determined by the marketplace. Also, they should not be included in the price index.

12581

CSO: 4006/725

FOREIGN CAPITAL USED TO DEVELOP AGRICULTURAL RESOURCES

Shanghai WEN HUI BAO in Chinese 9 Apr 87 p 2

[Article by Luo Min [5012 3046]: "Jiangxi Uses Foreign Capital To Develop Agricultural Resources; Red Soil and Uncultivated Land Should Be Made to Benefit Mankind; The United Nations and the World Bank Have Loaned Several Millions of Dollars; Several Large-Scale Projects Have Gotten Underway and Some May Show a Profit This Year"]

[Text] Jiangxi is using foreign capital to develop agricultural resources. At present there are six projects which have already reaped large economic and social benefits. Some projects may become profitable this year.

The transformation of red soil is the project which has used the most foreign capital to date in Jiangxi. The World Bank has appointed officials to make field investigations and evaluations. In July, 1986 they formally signed an agreement for a \$30 million interest-free loan to Jiangxi. In September, the six counties of Chongren, Linchuan, Jinxi, Dongxiang, Guixi, and Jinxian as well as the Jiangxi Animal and Seed Multiplication Farm and the Hongxing Land Reclamation Farm began to comprehensively carry out projects that had been agreed upon. They gave priority to developing specialized households and tackled problems concerning mountains, rivers, farmland, forests, and roads in a comprehensive way. They integrated farming and animal husbandry and fully developed agriculture, industry, and commerce. Within 5 years, 20,000 hectares of red soil will be exploited. They are setting an example for southern China in developing and comprehensively utilizing red soil. Once the project is completed, the 520,000 peasants in 97,000 peasant households in reclaimed areas will profit directly. They may hand over 160 million yuan in taxes to the state.

Nanchang is listed as one of the eight cities in China that is a base for freshwater fish farming. Last year the city accepted an interest-free loan from the World Bank of \$7.71 million to be used for digging new standardized fishponds, transforming old ones, building feed plants, cold storage, and other facilities. Once the projects are completed, Nanchang's annual volume of aquatic production will increase by more than 40 percent.

The two counties of Duchang and Xingzi in the Poyang He district pulled open the battle curtain on project "2799" last winter. They received material assistance from the UN Grain Planning Office worth \$8.75 million. On low-lying land from which there has been "no harvest for many years" they built 1,500 hectares of fishponds. This year they have already dug over 6,000 mu of fishponds and are breeding 3 million dongpian [0392 3651]. By the end of the year they may harvest 1 million kg of fish.

9864/12851

CSO: 4006/661

NEW MEASURES IN TEXTILE INDUSTRY PROVE EFFECTIVE

Shijiazhuang HEBEI JINGJI BAO in Chinese 25 Apr 87 p 1

[Article by Ma Wenqi [7456 2429 0796]: "The Growth Rate of the Hebei Textile Industry for the First Quarter and the Increased Stability of Exports"]

[Text] The "double increase, double savings" movement launched by the Hebei textile industry is beginning to show results. The gross output value for the first quarter increased 8.58 percent over the same period last year. The export exchange earnings for January and February grew 65.88 percent.

The gross output value of the textile industry in the entire province (not including the clothing industry) reached 1,162,000,000 yuan during the first quarter, an increase of 91.81 million yuan over the same period last year. There was an increase in the production of 9 of 11 principal products. The output of products in great demand increased substantially.

Leading textile departments and enterprises in all localities and cities have adopted the measure of "double increase, double savings" and preliminary results can be seen. In order to increase the production of cotton yarn, Shijiazhuang Cotton Mill No 5, based on the very high grade of raw cotton, adopted measures to appropriately reduce weft twists, to increase the front roller rotational speed, to reduce flatcar time, and to increase reserve bobbins. In March the output of spun yarn increased 20 percent over the output in January. Converted into per-unit-area yield, there was an increase from 40.32 kg to 41.83 kg. Output of cotton yarn is increasing 75 tons per month. Handan Cotton Mill No 4 implemented 28 items of the "double increase double savings" measure. By implementing just one of these items, that is, to repair and utilize old and discarded parts, they saved 17,000 yuan. Staff and workers in the Handan Silk Mill studied how to improve the installation of technological operations and, 10 days ahead of time, they completed the installation of 12 embossing machines and saved 1,864 yuan.

While also giving consideration to supplying the domestic market, exports throughout the province have expanded substantially in the first quarter. The gross value of delivered goods between January and February reached 320 million yuan, an increase of 18.8 percent over the same period last year and brought in \$86.79 million in exchange, an increase of 65.88 percent. Concerned enterprises have made major efforts to expand exports and product quality has

improved and stabilized. According to surveys, 25 varieties of goods from 12 enterprises have attained or are superior in part to the top standards in terms of the proportion of top-quality products produced; the proportion of top-quality products in storage; the proportion of exports up to standard; and the rate of goods that miss inspection. The quality standards of high-quality products have consistently received favorable evaluation and attestations from above the provincial level.

The "double increase, double savings" movement of the Hebei textile industry has received the strong support and practical guidance of the Ministry of Textile Industry and provincial, local, and municipal leaders at all levels. Comrade Jiao Ruoyu [3542 5387 1946] of the Central Advisory Commission, accompanied by leaders from the Handan Municipal CPC Committee, went to inspect Cotton Mill No 3. Secretary Wang Wenda [3769 2429 6671] of the secretariat of the Chinese Science Association went to Shijiazhuang at the end of March to inspect Printing and Dyeing Plant No 3. He provided positive affirmation of the scientific and technical work in this plant. Xu Kunyuan [6079 0981 0337], Bureau Chief of the Planning Bureau in the Ministry of Textile Industry, and other comrades went to inspect 30 enterprises during the middle of March. Following the Spring Festival, Deputy Governor Song Shuhua [1345 0647 5478] visited textile enterprises in Shijiazhuang many times. He convened a discussion meeting at State Cotton Mill No 2 and did some work on the premises of the First Printing and Dyeing Plant. He solved actual problems facing the enterprises.

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CSO: 4006/661

FUJIAN EXPORTS FLOURISH DURING FIRST QUARTER

Fuzhou FUJIAN RIBAO in Chinese 20 Apr 87 p 1

[Article by Zhang Lin [4545 2651]: "Foreign Trade in Fujian Flourishes; Exports Increase Fivefold During First Quarter"]

[Text] After a large increase last year, export trade in Fujian this year has once again expanded. Exports during the first quarter brought in \$157 million, fulfilling about 33 percent of export plans for the entire year. This is an increase of 48 percent over the same period last year. Ten foreign and industrial trade companies handling tea, light industry, shoes and hats, handicrafts, metal products, mechanical equipment, silk, coal, automobiles, and electronics increased exports more than 60 percent during the first quarter compared to the same period last year.

This year in order to provide a material basis for exports, leadership at all levels has strongly stressed foreign trade, the implementation of policy measures which encourage exports, the active growth of production and delivery departments, and substantial increases in the procurement and storage of commodities. In the past few years the establishment of an export base in Fujian and newly developed products have begun to show results. The volume of products sold abroad has doubled and redoubled, particularly live eels, frozen prawns, jewelry, granite, and silk. In recent years exports from foreign and industrial trade companies in various localities and counties and from the "three kinds of partially or wholly foreign-owned" enterprises have grown rapidly. Exports from the "three kinds of partially or wholly foreign-owned" enterprises alone have brought in \$3.85 million in exchange, 2.85-fold more than during the same period last year.

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FUJIAN CUTS COSTS FOR FOREIGN-FUNDED ENTERPRISES

OW241315 Beijing XINHUA in English 0641 GMT 24 Jun 87

[Text] Fuzhou (CEI)--The Fujian provincial government has recently worked out new regulations to cut costs for foreign-funded enterprises.

The principles outlined in the new regulations are:

--foreign-funded enterprises will pay the same fees as state-run enterprises, and special projects will receive preferential treatment;

--auditing fees for foreign-funded enterprises will be cut 50 percent;

--charges for medical care for foreign employees of foreign-funded enterprises will be cut 50 percent, while Chinese employees will pay the same rates for medical care as employees of state-run enterprises; and

--other reductions include cuts in land use fees.

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CSO: 4020/231

FUJIAN OFFERS LABOR, SIGNS CONTRACTS ABROAD

OW241149 Beijing XINHUA in English 0618 GMT 24 Jun 87

[Text] Beijing (CEI)--East China's Fujian Province has signed 330 contracts for cooperation in labor services and construction with 14 countries, valued at 200 million U.S. dollars.

The projects cover highways, water conservation, sugarcane farms, sugar refineries, textiles and fisheries, and were organized by four companies of technological cooperation with foreign countries run by Fujian Province, and Fuzhou, Xiamen and Quanzhou cities.

On May 1, the provincial company was informed by the Hong Kong building development department it had won the bid for construction of a gymnasium building in Hong Kong's Tsuen Wan District for 38.97 million Hong Kong dollars.

The company now has four top grade "c" licenses issued by the Hong Kong government for road and canal projects, sea port construction and housing construction.

So far, Fujian has dispatched 8,000 technicians and workers to provide labor services in navigation, construction, cooking, tailoring and furniture making.

Labor service contracts between Fujian Province and foreign countries mainly focus on processing with supplied materials and running joint ventures, and some enterprises are now in operation domestically and abroad.

To date, Fujian has built 11 joint ventures in eight countries, including the Arab Republic of Yemen, Bangladesh, Thailand and Britain.

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CSO: 4020/231

FUJIAN OFFICIAL CITED ON AQUATIC PRODUCT EXPORTS

OW291734 Beijing XINHUA in English 1409 GMT 29 Jun 87

[Text] Fuzhou, June 29 (XINHUA)--Fujian Province hopes to export up to 70 million U.S. dollars worth of aquatic products this year, up 100 percent over last year, an official of the provincial bureau of the aquatic products said today.

The official said Fujian's exports of aquatic products jumped 30 million U.S. dollars last year, up 17 percent over 1985, accounting for 18.6 percent of the country's total aquatic output value. Aquatic production bases, built several years ago, are hoping to increase output and newly-built bases are showing initial results.

Aquatic production bases have been set up in 22 coastal counties and cities in the province. By the end of last year, the province had 45,000 hectares of breeding ponds, 9 percent more than in 1985, export-oriented aquatic production bases covered 7,700 hectares, up 140 percent over 1985.

Fourteen Sino-foreign funded and cooperative aquatic breeding enterprises were set up last year bringing the total to 32, distributed over 13 counties and cities.

The province's ponds bred prawns will be increased by 66 percent, the breeding area of eel will jump by 85.7 percent and the hectares dedicated to breeding oysters will increase by 33 percent.

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CSO: 4020/231

GANSU POLICIES TO ATTRACT FOREIGN INVESTMENT

OW241155 Beijing XINHUA in English 0637 GMT 24 Jun 87

[Text] Lanzhou (CEI)--In a bid to encourage foreign business people to put more foreign capital in Gansu Province, the provincial government has just announced a series of preferential treatment policies in addition to the state provisions introduced last year.

Gansu's new preferential policies include:

Chinese joint venture partners will pay all or part of the freight charges from coastal areas to Gansu. Solely foreign-invested enterprises with no Chinese partners to shoulder the cost will be compensated for by tax reduction or extension of the tenure of operation.

Local corporate income tax will be waived for foreign-funded enterprises whose annual income is under one million yuan.

Land use fees will be waived during the first 10 years of operation for foreign-funded enterprises producing export-oriented products or using advanced technology, and will be charged at half the state-designated rate after this period expires. Those not belonging to the above-mentioned two categories will have 5 years of free usage of land and pay only half rates after this period.

The provincial government will approve comprehensive compensation plans for enterprises who have difficulty in balancing their foreign exchange earnings and expenditures.

Gansu provincial authorities will deal with documents submitted by foreign-funded enterprises within one month. For those requiring approval from higher authorities, the related provincial departments must finish their initial examination within 10 days and then submit the documents immediately to higher authorities.

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CSO: 4020/231

GUANGDONG'S ZHUHAI ATTRACTS MORE FOREIGN CAPITAL

OW281110 Beijing XINHUA in English 1041 GMT 28 Jun 87

[Text] Guangzhou, June 28 (XINHUA)--South China's Zhuhai City reported to have attracted fresh foreign capital for 24 key projects in the city this year.

When completed, these products will be able to turn out 1.1 billion yuan-worth of goods every year that will be sold mostly overseas.

The amount of foreign capital that has actually been used in the city has increased by 80 percent in the first quarter of this year over the same period last year as a result of the local government's flexible policy and better services for foreign investment.

In a development area of 10 sq km the city has built a deep-water port for 10,000-dwt class ships, a helicopter airport, roads, power plants and program-controlled telephone facilities over the last few years since China adopted the open policy.

It has set up four industrial districts in the city and become home to more than 300 enterprises with foreign investment as well as cooperative projects with enterprises from other parts of the country.

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CSO: 4020/231

LIAOWANG EXAMINES PRC OVERSEAS INVESTMENTS

HK290707 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 25, 22 Jun 87
p 16

[Article by Ma Ningsheng (7456 1337 3932) and Qi Yongqiang (7871 3057 1730):
"China Has Invested in 277 Enterprises Abroad"]

[Text] Over the last 8 years since it started carrying out reforms and opening up to the world, China has made progress in "Using domestic and foreign resources and exploiting domestic and foreign markets." Apart from absorbing a large amount of foreign capital to develop its economy, China has also started making investments in enterprises abroad.

Two Hundreds and Seventy-Seven Enterprises

According to statistics from the department concerned, by the end of 1986, China ran 277 joint-venture or wholly-owned enterprises in 54 countries and regions, with a total investment of \$407 million. China's investment amounted to \$230 million, 57.3 percent of the total.

China's overseas investments have just started and the scale is very small, but the prospects for its investments are bright. As indicated by incomplete statistics, of the enterprises which have gone into operation, those which have made profits account for 41.3 percent and those which can maintain a balance between income and expenditure account for 48.1 percent. These two add up to almost 90 percent. Loss-incurring enterprises account for only 10.6 percent.

China's investments are distributed mainly in the United States, the GDR, Japan, Canada, Hong Kong, and Macao. It is also developing its investments in Third World countries like North Yemen and Mauritius. In particular, China is willing to cooperate with Third World countries in exploiting natural resources.

Learning From Others' Strong Points to Offset One's Weaknesses

China is a developing country. It is short of funds. To get better investment results with less capital investments and in accordance with the development of the national economy and China's national conditions, China has laid the

stress of its overseas investments on the exploitation of communications, transportation, energy, and natural resources when contracting for projects abroad, and on labor service cooperation with foreign countries. Over the last few years, China has achieved good economic results in running communication and transportation joint ventures abroad. By the end of last year, China had already gained profits and wage income totaling over \$4 million. Last year, about a dozen joint ventures and wholly-owned enterprises run by China in the United States showed marked economic results.

The sphere of China's overseas investments keeps expanding and involves the exploitation of resources, industrial and agricultural production, the combination of industry, technology, and trade, communications, transportation, banking insurance, enquiry services, medical and health services, tourism, restaurants, and hotels. It has sent about 3,000 managerial and labor service personnel to its overseas enterprises.

The steady development of China's investments in its overseas enterprises has assisted its domestic economic construction. In the meantime, it has also strengthened economic and trade cooperation between China and various countries in the world, and in particular with Third World countries. It has played an important role in carrying out "South-South cooperation" and assisting Third World countries in developing their national economies.

Some people have predicted that China's investments in its overseas enterprises will tend upward following further implementation of the policy of opening up to the world.

The Stress of Investments in the Coming Years

As pointed out by some people, the stress and orientation of China's overseas investments are as follows:

--The exploitation of natural resources. This involves the exploitation of forest resources (including lumber, pulp, and plywood), fishery resources (including deep-sea fishing and processing), and mineral resources (including exploitation of iron mines and some nonferrous metal mines). In recent years, lumber, nonferrous metals such as copper, aluminum, lead, and tin, and industrial construction materials including iron sand [tiekuang sha 4993 4349 4263] have become China's main import goods. Cooperation with foreign countries in making investments in the above spheres will help China ease shortages of resources. In addition, China develops its investments in natural resources mainly in Third World countries. This helps meet the needs for their economic development and enables them to increase their income and enrich their domestic markets by utilizing their resources.

—Medium-sized and small industrial and agricultural projects. Being an agricultural country, China is not equipped with the conditions for overseas investment cooperation in large industrial projects, although it has a certain industrial basis. Therefore China will use its own strong points to focus its overseas investments on small- and medium-sized industrial and agricultural

projects, and in particular on running enterprises abroad which can provide equipment, technology, raw materials, technical guidance, and management methods for the countries concerned. In this way, China will be able to bring into full play the strong points of its small- and medium-sized enterprises and use its medium-level technology to meet the needs of developing countries to develop their industrial and agricultural production. This will help China expand its exports and increase its foreign exchange income.

—Enterprises characterized by the combination of industry, technology, and trade. Taking account of the fact that the level of its industrial modernization and technology is still new, China will focus some of its overseas investments on enterprises which can help the country introduce advanced technology, key equipment, parts, components, and new products from abroad. Through cooperation in making investments in such enterprises, the Chinese side will learn advanced workmanship and technology from foreign countries to reform its old enterprises, renew its equipment, and replace its old technology. Particular attention should be paid to running overseas enterprises which can help domestic enterprises improve the quality and increase the variety of their products, and develop new products. All this will enable China to expand its exports.

Furthermore, China will actively cooperate with foreign countries in the fields of communications, transportation, enquiry services, and banking insurance, provided such cooperation can produce good economic results. This cooperation will be carried out either in the form of a joint venture or in the manner of running wholly-owned enterprises.

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SHANXI PROVINCE IMPROVES FOREIGN TRADE

OW281114 Beijing XINHUA in English 1047 GMT 28 Jun 87

[Text] Beijing, June 28 (XINHUA)—North China's Shanxi Province has restructured its composition of import items and expanded export volume since last year, a local official told XINHUA.

Imports of raw materials took up some 25 percent, while those of technology and complete sets of equipment exceeded 60 percent of the province's total last year, compared with 32.7 and 19.7 percent, respectively, in 1985, said the official.

The change reflects the province's emphasis on technological upgrading of its existing enterprises, said the official from the provincial commission of foreign economic relations and trade.

At the same time, exports have been expanded, and in 1986 export goods exceeded 300 million U.S. dollars in value terms, doubling the figure for 1984, the official said.

The province has set up trade ties with more than 90 countries and regions, and exports coal, textiles, machines, light manufactured goods, and farm and sideline produce.

The province has supplied labor services to nine foreign countries. Since 1985 it has won labor service contracts worth more than 13 million U.S. dollars, the official added.

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ECONOMIZING IN SICHUAN'S FOREIGN ECONOMIC ACTIVITIES

Chengdu SICHUAN RIBAO in Chinese 26 Apr 87 p 3

[Article by Xu Shiqun [1776 0013 5028]: "What Sichuan Must Do to Cut Costs and Increase Output"]

[Text] As far as the economy is concerned, the CPC Central Committee has demanded that the entire party this year increase production and incomes and economize on costs and expenditures. This is a vital matter that will influence the progress of the four modernizations and the steady development of the national economy. It must be adhered to as we open China to the outside world.

Sichuan has had significant achievements in opening itself to the outside world since the 3d Plenary Session of the 11th CPC Central Committee. Take 1986, for instance. The province has established extensive ties with over 150 financial groups, companies, and businessmen in more than 60 countries and regions. Foreign exchange earnings derived from trade rose 38 percent in 1986 compared to 1985, while non-trade foreign exchange earnings grew 33 percent. Foreign capital absorbed more than tripled over 1985. Forty-four new contracts on labor service and engineering projects were signed, their total value exceeding \$100 million. Nevertheless, it is essential that we open our eyes to the waste that still exists in our foreign economic work, examine the danger it poses, and make a conscientious effort to eliminate it.

1. "Double increases and double economies" must focus on the broad picture. The idea that wrong policies are most wasteful must be cultivated.

Sichuan lacks foreign exchange and is short of funds. Yet waste is a serious problem here. First, importation work is planned separately in each industry and geographically scattered. There is insufficient comprehensive planning and coordination. Once it manages to get some foreign exchange, a unit is free to import machinery and equipment. The upshot is haphazard and overlapping importation. As supply exceeds demand, there are long delays before some imported machinery is put into operation. There also have been cases where enterprises imported assembly lines without first considering where the foreign exchange needed to pay for spare parts would come from, resulting in a low equipment operation rate. These problems can be found in the home appliance and apparel industries, color photo development, and in

electrical machinery and other industries. Second, no thought is given to realities as enterprises blindly seek to get hold of the most advanced technology. Ignoring their own scientific research and technical development capabilities, and without considering whether the imported technology and equipment are compatible with the province's realities and technical status, a small number of units insist on going after the most sophisticated top-of-the-line equipment and technology, even though they cannot absorb or assimilate them for a while. For instance, some of the large and mid-sized computers and microprocessors at certain universities, scientific research units, departments in charge, and enterprises are either idle or under-used. Delays have also been encountered in the effort to increase the domestic contents of several imported color television assembly lines due to the absence of certain key spare parts and raw materials. Third, a handful of units have ulterior motives when they import technology and equipment. Some individuals insist on going abroad for study purposes, knowing full well that the equipment in question is available at home. Looking at the composition of the study tours, it is obvious that some of those who went abroad had little to do with the imports concerned and were much more interested in things other than technology importation itself. As for the amount of "tuition" paid and foreign exchange wasted, that is something else.

Accordingly, we believe that, first of all, leadership over importation must be strengthened. Control must be tightened and the whole process must be scrutinized rigorously at every step. Second, importation must be incorporated into the overall national economic development plan. Clear and well-thought-out importation principles must be formulated. Internal and external work must go hand in hand in a coordinated way. Care must be taken to conduct feasibility studies on imported projects. Third, we must focus on, take advantage of, and modernize what we already have in the country and stringently restrict the importation of technology and products existent in China. People should be encouraged to innovate and invent. Self-development and domestic substitution of foreign imports must be promoted. Fourth, an "import responsibility system" must be implemented. Individuals whose importation work have caused the state or an enterprise substantial economic losses must be held accountable for them. Those who have broken the law in their course of importation must be severely punished.

2. "Double increases and double economies" must start with the tapping of internal potential. The idea that intensive growth is most economical must be instilled.

In foreign economic relations and trade, increasing output and economizing revolve around cutting down on the consumption of materials and labor time and reducing the amount of funds used. Also, we should take note of the hidden problems behind "normal production costs" and "policy-induced losses." While exports have been increasing rapidly, the costs of earning foreign exchange have also gone up repeatedly, about 30 to 100 percent higher than those in coastal provinces. Consequently, foreign exchange losses have been worsening. There is certainly an objective factor for this state of affairs: the province's inland location. Still, we cannot ignore the waste resulting from low management standards, poor returns on economies of scale, and high circulation costs. For instance, uninformed about the foreign market, we have

been procuring more products than we can actually sell abroad. In our ignorance about international economic and trade laws and regulations, we have been signing many more contracts than we can really enforce. There is a tendency in our work to overemphasize the amount of foreign exchange earned, while disregarding the importance of efficiency indicators. Some rounds of economic and trade negotiations have been fairly fruitful, but they were very costly in terms of funds and manpower and few of the contracts signed at these sessions have been carried out. Then there are some units in foreign economic work which, once established, lose no time in going in for extravagance and ostentation, instead of immediately getting down to business. These units do everything on a grand scale, even when it comes to spending money. Only luxury cars and foreign goods would do. Some companies lease expensive suites in luxury hotels long-term as offices, significantly pushing up their operating expenses. Instead of exerting themselves to improve service attitudes, raise quality, and offer a wider range of services, some tourist hotels are more concerned to decorate high-class suites. However, the returns have not been satisfactory.

To tackle the above-mentioned problems in the management of foreign economic relations and trade in Sichuan today, it is proposed that all units in foreign economic work tighten cost accounting, step up checks on the costs of earning foreign exchange, and increase lateral comparisons in order to achieve genuine economies as a result of caution, steadiness, constant improvements in the quality of exports, continuous declines in the costs of materials, management, and circulation, and the popularity and marketability of Sichuan products.

3. "Double increases and double economies" should start with the details of protocol and of receiving foreign guests. The Chinese way of eschewing both superciliousness and obsequiousness and treating courtesy with courtesy should be developed.

Westerners have commented that the less developed a nation, the more conscious its people are of being slighted and the more likely they are to go in for ostentation and extravagance. Judging from the way some people in the province go about foreign economic work, this comment seems applicable to them too. First, they do not abide by regulations governing the dealings with foreign nationals or organizations. "Four excesses and one high" are widespread. CPC Central Committee regulations stipulate clearly that foreign guests visiting a certain locality should be feted only once or, in special circumstances, twice. Yet some people still persist in holding lavish banquet after lavish banquet at several levels in different forms. During its brief 7-day stay in Chengdu, a delegation from Hong Kong was feted as many as 5 times by the department which received it, the number of hosts outnumbering the number of guests several times. Others have extremely expensive tastes, ordering banquets costing 500 to 800 yuan per table. Indeed it may be said that "one banquet for forest guests can feed a peasant household for a year." Second, mistakes in receiving foreign visitors often lead to unjustifiable waste. A provincial agency playing host to a group of foreign visitors bought the wrong plane tickets. To ensure that the visitors could leave on schedule, the agency had no choice but to charter a plane, wasting almost 10,000 yuan. Third, in their eagerness to capture an investment project but worried that they may be looked down upon or the deal may fall through, some counties and

municipalities naively pin their hopes on wining and dining to clinch the deal, without considering their business partners, occasion, and their own investment conditions. Little do they know that very often what they do is counterproductive. For example, a certain unit spared nothing to wine and dine a delegation from the World Bank sent to determine whether or not to approve a loan for a rural project. The entertaining actually alienated the foreign visitors who expressed skepticism that a loan was badly needed.

All this is not only a question of waste but also involves style of work, superficially, and a sense of national pride, personal dignity, and national honor, at a deeper level. In diplomacy, the most important thing is reciprocity, sincerity, trust, and self-respect. It is not extravagance and parading one's wealth that matters. Instead, we must fall back on our real strength, that is, the Chinese way of eschewing both superciliousness and obsequiousness and solid work, including the improvement of the investment climate, management and technical standards, and the caliber and quality of the work force.

In foreign affairs and foreign economic relations and trade, China has a fine tradition of hard work, seriousness, and diligence. If we look back on the vivid examples reflecting the extreme resourcefulness, hard work, and plain living of the older generation of proletarian revolutionaries, like Premier Zhou Enlai, and recall his instructions that "we should emphasize the spirit, not materials, and certainly not pomp and circumstance, in a friendship," we will be acutely aware of how much we fall short, of our responsibilities, and of the immense practical significance of "double increases and double economies." Thrift can make a nation prosperous, rectify the party style and social tone, and improve the ideology and ethics of an entire nation. All units in the province engaged in foreign economic work, from top to bottom, must carry out "double-increases-and-double-economies" measures to the full, value every foreign-currency bill, and further the nation's fine tradition so that Sichuan's foreign ties and foreign economic relations and trade will grow more fruitful and reach a higher level.

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CSO: 4006/725

TIBET SEEKS FOREIGN ECONOMIC COOPERATION

OW260814 Beijing XINHUA in English 0748 GMT 26 Jun 87

[Text] Lhasa, June 26 (XINHUA)--The Tibet Autonomous Region is getting ready to announce 21 economic and technological projects open to foreign cooperation.

The regional vice-chairman, Gyamco, said, these projects will include arsenic, tin, copper, molybdenum and borax mines; marble, timber, fresh fish, and herbal medicine processing factories; geothermal exploration; technological imports; and building tourist facilities.

The projects can be organized as joint ventures, cooperative enterprises, and solely foreign-funded businesses or as compensation trade.

To date, Tibet has already started cooperative projects with about 20 countries, regions and international organizations.

According to Gyamco, "under the influence of the state's special and preferential policies encouraging foreign investment, Tibet's economy has developed rapidly in recent years."

Tibet, one of China's five pastoral areas, generated output value from livestock of 400 million yuan (108 million U.S. dollars) last year, up 7.4 percent over 1985. Per capita annual output in the region averages 300 kilograms of grain and 40 kilograms of meat.

The vice-chairman expects Tibet's gross social product to hit 1.49 billion yuan (403 million U.S. dollars) in 1990.

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CSO: 4020/231

XIZANG AUTONOMOUS REGION INCREASES FOREIGN TRADE

OW241355 Beijing XINHUA in English 1040 GMT 24 Jun 87

[Text] Lhasa, June 24 (XINHUA)—Tibet has been exporting more since China's central authorities granted the region more foreign trade power in 1981, an official of the local foreign trade office said today.

"As a result, foreign trade has become Tibet's main source of income," he said, adding last year, the region's foreign currency income was 5.34 million U.S. dollars, 48.5 times that of 1981, while border trade value hit 19.2 million yuan (5.2 million U.S. dollars), an increase of 400 percent over 1980.

In the first five months of this year, trade income was the equivalent of 1.07 million U.S. dollars in foreign currency, or 33 percent more than the same period last year.

Before 1981, Tibet carried out border trade only with Nepal. After 1981, the central government allowed Tibet to practice mainly the market economy and delegated the foreign trade power to the region, which is allowed to retain all its export earnings. This has helped expand greatly its exports. Now the region exports traditional Chinese medicine and animal by-products to nine countries, including the United States, Japan and Hong Kong.

Tibet's foreign trade office pays in advance to supply and marketing cooperatives in the region's pastoral areas for the purchase of export goods, and also sends technicians to assist herdsmen with production.

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CSO: 4020/231

XIZANG REGION SEEKS FOREIGN INVESTMENT

OW241145 Beijing XINHUA in English 0634 GMT 24 Jun 87

[Text] Lhasa (CEI)—The Tibet Autonomous Region is now offering preferential terms to Chinese and foreign investors who wish to help the region develop local resources.

The regional people's government recently published new regulations in a bid to draw more investment.

The 15-provision document will make things much easier for investors. There is increased eligibility for bank loans and enterprises with sole foreign capital can obtain loans at an interest rate 20 percent lower than normal.

The region gives priority in building materials, raw materials, energy supplies, and transportation facilities.

Foreign capital enterprises enjoy the same kind of tax breaks as industries of minority nationality region.

Joint venture enterprises are allowed to draw dividends before taxes.

Furthermore, foreign partners in joint enterprises will be given an extra 5 to 10 percent of the profits they're entitled to. Foreign partners will also be given a 5 to 10 percent discount on any losses that might occur more than their foreign partners.

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CSO: 4020/231

DALIAN IMPROVES INVESTMENT ENVIROMENT

Hong Kong LIAOWANG OVERSEAS EDITION [OUTLOOK] in Chinese No 8, 23 Feb 87 pp 11-12

[Article in Special Report Column by Wang Qixing [3769 0796 2502]: "Dalian Creates Proper Investment Enviroment For Foreign Investors"]

[Text] Last year the rate of investments fell in many coastal open cities, but Dalian's investment outlook remained optimistic. According to statistics, Dalian completed transactions on investments worth \$310 million, which was an increase of 41 percent over the previous year; of that total, \$270 million was investment by foreign businesses, which was an increase of 78 percent. Representative from the State Council's Special Economic Zones Office attributes Dalian impressive achievement in attracting foreign investments to the city's efforts to create the right investment enviroment.

How To Improve The Investment Enviroment

Dalian was one of the first coastal cities in China to open their doors to the outside world, and since then businessmen from all sectors have poured into the city, to discuss business and to set up enterprises; the economy was bustling. After the initial fervor waned, things calmed down, and foreign businessmen began to complain about all sorts of unreasonable expenses and unhealthy rules and regulations. As a result, Dalian's government decided that there was an urgent need to improve the investment climate there.

Actually Dalian has done much to improve the investment enviroment since 1984. Through expansion, the domestic airport which once could only accommodate small passenger planes has been turned into an international airport large enough for Boeing 747s and has direct links with Hong Kong and Tokyo. It has imported 40,000 sets of programmable telephones, 20,000 of which are already in service with direct dails to major domestic and overseas cities. The coal dock on Heshang Island with 5 million ton annual capacity, the 700,000 kilowatt capacity harbor power station, a first-class highway between Dalian and Shenyang are all under construction. Many hotels are ready, or almost ready, for use. The infrastructure for the 3 Km2 startup zone of the Economic And Technological Development Zone is ready. When the rest of the nation was facing shortage of funds, how did Dalian improve the investment climate?

Concentrate On Improving the "Soft" Environment

If Dalian is the door to the Northeast, then its harbor is Dalian's window. The Port of Dalian is China's number one foreign trade port; it does business with over 140 countries and regions worldwide, handling over 40 million ton of cargoes each year.

For more than a decade, if one climbed to the rooftop of the 9-story port office and looked over the horizon, one could often see as many as a hundred colorful giant vessels of all sorts lining up beyond the breakwater. At night they lid up like an ocean city. But that was not a mirage; it brought tremendous pressure on Dalian: because of over-crowding the state had to pay those foreign vessels hundreds of thousands of dollars in fines every year: during the peak period it reached \$200,000 per day. This is like throwing money into the sea: a dollar at a time, two every second.

Early last year the Port of Dalian decided to devolve power and implement a system of dual leadership shared by the Department of Communications and the city, with the city as the senior partner. The troublesome "ocean city" miraculously disappeared: even when the port was handling more traffic, not only was there no congestion in the harbor, the docks were often empty and ready for customers.

With the harbor congestion problem eased, Dalian's investment climate improved, and at the same time it also shed light on how to further improving Dalian's investment climate: without making any changes in the infrastructure, and only by strengthening managment and increasing efficiency, which were accomplished at zero cost, the city managed to tap potentials: they should be able to do the same with the investment environment. One must treat investment environment as a complex, multi-dollar, multi-level project; attention should be paid to improving the infrastructure, but attention also must be paid to improve service and efficiency and so on: improvments must be made on the "hardware" as well as "software" to make the complete system work. Subsequent to investigations, Dalian's leadership discovered that most of the foreign businessmen's complaints were focused on the "software": they played a major role in attracting foreign investments. As a result, Dalian's party committee and city government made a decision last June: throughout the city, from government organs to plants, mines, and enterprises, every sector and every trade would participate in a movement to improve services and increase efficiency within 100 days so as to improve the "software" in the investment environment and serve the overseas investors and the Northeast heartland better.

Do a Good Job, Especially When It Is Free Of Charge

When many cities were busy scrambling for investments and pushing project proposals, Dalian found a new path and turned its attention to the "soft" and the "intangible." In Dalian, work efficiency was low and service was poor among many officials. Take basic constructions for example, no matter who wanted to start a project or build a house in Dalian, one had to go through the hundred offices in some 30 or more committees, department, and bureaux to

get approval. Because the "bureaucrats" were constantly bickering, dragging their feet, insist on doing things their way, or deliberately making things difficult for everyone, one had to go through a lot of trouble to get anything started. Even the most capable and most experienced grass-root unit avoided tangling with those officials, let alone a newly arrived stranger from abroad.

Consequently, responsible officials in Dalian repeatedly discussed this issue and appealed to the public. Mayor Wei Fuhai [7614 1381 3189] said, "improving services and increasing efficiency are also important elements in improving the investment environment. Upgrading infrastructure requires a lot of money, but changing poor workstyle is free of charge. We work hard on costly projects, and we should work just as hard on something which does not cost us anything." He disagrees with the notion that lack of foreign currencies or RMB is the major obstacle in opening up to the outside world. Instead, he feels that often the main difficulties lie in our own ideologies, workstyle, or inability to accommodate the needs in opening up to the outside world.

In order to speed up improvements of the "soft" environment, Dalian took a number of effective steps which included the following:

--based on further investigations, and with the approval of the State Council, Dalian was the first among the coastal SEZs and open cities to announce a policy consisting of 8 provisions extending most-favored treatment to foreign investors. Shortly thereafter, it announced a most-favored treatment policy in the heartlands: it opened the door to the outside and united with the interior, and enhanced its attraction and its influence.

--in order to simplify the administrative structure, stop the endless minor disputes, and increase efficiency, the city government established two joint operation organizations to set up, coordinate, and promote the work of the various departments to serve the grass-root units and the foreign investors. Jobs that in the past would have taken months or years to complete can now be accomplished in days or weeks at most.

--the various departments, committees, offices and bureaus changed their management style, revised and perfected their rules and regulations, clarified job responsibilities, simplified procedure and devolved power.

--commerce, service, tourism, communications, clinical and public health and other trades improved quality and service to overcome "cold, harsh, and defiant" tendencies and promote "service with a smile."

High Efficiency Pleases Foreign Investors

By the time the rest of the country realizes the importance of improving the "soft" environment Dalian is already reaping results. One morning the Dalian office of a Japanese trade agency contacted the Dalian's Foreign Enterprises Service Corp. with questions and suggestions concerning housing and other matters; in the afternoon a staff member delivered response to all inquiries; the Japanese businessmen exclaimed, "we did not expect such speedy response."

The efficiency of the Dalian Huayang-Ensai Co. Ltd., a Sino-foreign joint venture, is even more impressive: this company was set up jointly last April between the Dalian No. 2 Organic Chemical Plant, the China Huayang Technical Corp. and NCH Company of the U.S., and in July, four advanced products by world standard which filled the void in China's productlines were put on display in the Foreign Trade Companies Export Products Showroom. In starting up this joint venture company Dalian's No.2 Organic Chemical Plant took only 3 months to remodel its plant, purchase new equipments and materials, install, adjust, conduct tests and begin productions. Dalian's Foreign Economics and Trade Commission and other departments streamlined procedure, examined and approved all items in record time. At startup time Huayang-NCH needed to import certain materials: this normally would require more than a month to go through procedure, but through the efforts of the foreign trade, customs and bank units, everything was taken care of within a week. MUQIGAN, Chief Engineer of NCH said, "taking only 3 months to put a product on the market is a miracle, even in as efficient a country as Japan: the success of Dalian proves that China is becoming the world's most attractive place for investments." John Brandenburg, Vice-President of the company similarly has nothing but praises, "everybody in Dalian, from the mayor to the average workers, is dedicated to his work. Our experience in the efficiency in starting up the Huayang-Ensai Co. Ltd. let us appreciate the sincerity of the Chinese in this cooperation."

The Economic And Technological Development Zone some 30 km away from the city is doing well too. By the end of last year, among the 41 projects contracted, 9 have begun production or operation.

"You should come back in a few months," said Liu Taiming, [0491 1132 2494] deputy director of the development zone, "by then we will be able to show you a few things worth millions of dollars." Declining to talk about details, he told the reporters that Sino-foreign cooperations in some advanced technology, large scale and high standard projects are well underway, but they want to take care of the details. It seems that at present they want to keep everything under wraps, perhaps to "surprise" the world later.

"An attractive shop brings customs," Dalian's mayor Wei Fuhai once used the expression to describe how an improved investment environment can entice foreign investors. Although Dalian has done much to improve the intangible aspects of the environment, not all departments and units have improved their services or efficiency; inadequate service network, lack of cultural facilities, underdeveloped tertiary industry remain the complaints of visitors from other parts of the country and from overseas. Dalian's officials admit that things are not perfect and there is much room for improvement in the city's investment environment.

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NANTONG BENEFITS FROM OPENING TO OUTSIDE

OW261254 Beijing XINHUA in English 1159 GMT 26 Jun 87

[Text] Nanjing, June 26 (XINHUA)--Nantong, a Yangtze River port city in east China's Jiangsu Province, has already achieved big results in the implementation of China's policy to open to the outside world.

Nantong is one of the country's 14 open coastal cities designated by the Chinese central government to open to foreign investment, technology and trade and one of its 33 major export centers.

In the past three years, Nantong has signed 198 contracts on imports of technical projects, and up to now, 117 have been put into operation, adding 780 million yuan (210 million U.S. dollars) in output value and 160 million yuan in taxes and profits every year.

The city's major industry is textiles and it has completed technical retooling of its leading textile enterprises, raising their technical levels to the international standards of the early 1980s.

Exports of finished textile products now account for 56 percent from 31 percent in the past, and purchases for exports last year totalled 1.17 billion yuan, doubling the figure three years ago, said an official from the local export department.

During the period, Nantong's total industrial output value has increased to 11.1 billion yuan from 8.5 billion yuan, according to the city's industrial department.

Thanks to economic development, the people's life has also improved. The city's average annual per capita income during the Sixth Five-Year Plan (1981-1985) increased by nine percent, and last year the increase recorded 19.7 percent.

During the 1981-to-1985 period, Nantong built two million square meters of residential buildings, and in 1986 alone, 560,000 square meters were completed.

Since it was designated an open coastal city three years ago, the city has established economic ties with more than 40 countries and regions, and its port has opened business with 34 leading sea ports in the world.

In addition, Nantong has approved the setting up of 34 Sino-foreign joint-venture enterprises, and 16 have started production.

SHANTOU ZONE PROMOTING EXPORT-ORIENTED ECONOMY

OW271238 Beijing XINHUA in English 1217 GMT 27 Jun 87

[Text] Guangzhou, June 27 (XINHUA)--The Shantou special economic zone in south China's Guangdong Province has seen a fast growth in its export-oriented economy in the first five months this year, according to an official of the zone's administration committee.

The zone made 43.3 million U.S. dollars from exports in the first five months, up 114 percent over the same period of last year. Industrial products made up 82 percent of the total exported goods, according to Li Huanran, deputy director of the committee.

The main exports cover more than 100 varieties, including garments, toys, hardware, machines and plastic products. Export volumes of enterprises with foreign investment increased by 150 percent over the same period last year.

The deputy director said that the zone is expected to make more than 100 million U.S. dollars from exports judging by the overseas orders the zone's enterprises have received.

Business people from Hong Kong, Macao, Singapore, Thailand and Japan have invested nearly 100 million U.S. dollars in the zone in the past few years and they have set up over 70 joint ventures.

More overseas businesses have come to the zone for cooperation this year, said the official. Now the zone's largest joint venture, involving two billion U.S. dollars, is under negotiation.

The zone has set up over 170 cooperative enterprises with its Chinese counterparts in other provinces and cities, thus enhancing the economic strength of the zone. Several such cooperative projects involving at least 10 million U.S. dollars are under preparation.

The Ministry of Communications has decided to invest 300 million yuan in the construction of a deep-water harbor in the zone and the zone itself will build two power plants with a combined capacity of 350,000 kw.

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CSO: 4020/231

COMPONENTS OF SHENZHEN JOINT-VENTURES STUDIED

HK260446 Beijing JINGJI GUANLI in Chinese No 3, 1987 (undated) pp 50, 51-53

[Article by Lin Gongshi (2651 0301 1395) and Rao Meijiao (7433 5019 1207): "A Study of the Organizational Structure of Joint Ventures in Shenzhen"—edited by Lin Qicheng (0491 0336 2490)]

[Text] Shenzhen is the largest Special Economic Zone in our country. Between 1979 and 1983 there were a total of 460 joint ventures, contractual joint ventures and wholly foreign-owned enterprises. Shenzhen contributed 66.8 percent of the country's total joint ventures. Within the same period, the actual amount of foreign investment was 2.98 billion Hong Kong dollars (including compensation trade and processing materials supplied by foreign investors), of which 12 percent were joint ventures which were mainly engaged in industry (43.6 percent), real estate (26.5 percent), tourism, commerce and the catering trade (12.6 percent).

Among various types of enterprises, Sino-foreign joint venture enterprises (named joint venture enterprises hereafter) are important strategically since they are equity joint ventures established by Chinese and foreign investors within China, and they are completely new economic organizations. Ours is a socialist country. Its organizational and management systems of enterprises are very different from those of Hong Kong and Western capitalist enterprises. When compared with the joint venture enterprises which are formed between capitalist countries, our joint ventures are also different from them in nature. Therefore, we do not have an existing model to copy, and we can also not draw lessons from others' past experiences.

A rational organizational structure is an important guarantee in realizing the targets of an enterprise. It is important practically in seriously studying the characteristics of the organizational structure of Sino-foreign joint venture enterprises. One of the important aims in establishing joint venture enterprises is to introduce to China and to digest advanced foreign management methods, and how to establish the organizational structure of an enterprise is an important part of an enterprise. This is one reason. Another reason is that we are reforming our economic structure and our economic management, and trying with great efforts to realistically explore an organizational structure system for enterprises which is suitable for China's situation. A study of the organizational structure of joint venture enterprises can provide us with some beneficial experience. In the second half

of 1985, we began to conduct a questionnaire to explore the characteristics of the organizational structure of the joint venture enterprises in the Shenzhen Special Economic Zone, and used it as an important step in understanding the management problems of joint venture enterprises.

We used the random sampling method and sent out 75 copies of the same questionnaire. We then interviewed Chinese persons-in-charge and collected 34 answered questionnaires from them. Forty-five point three percent of the questionnaires were collected. The Chinese persons-in-charge were managers or deputy-managers of the company. The enterprise personnel which were interviewed answered the questionnaires seriously. The interviews in general lasted an hour, but some lasted up to four hours. Some enterprises talked to us several times.

Since the scope and scale of this investigation is small and there is no similar study that we can base it on, this study is only a preliminary one.

I. The Basic Situation of the Enterprises Which Were Investigated

1. Business Nature

As for the business nature of the 34 enterprises interviewed, 19 of them are in the manufacturing industry, amounting to 55.9 percent of the total number of enterprises which were investigated. There are two enterprises in the services industry and three in commerce. Five enterprises are of diversified businesses and five others are in the transportation, construction and other industries.

2. Origins of the Foreign Investors

Most of the enterprises' investments originated from foreign investors of Hong Kong and Macao (mainly Hong Kong) and they amount to 24 (70.6 percent). Seven enterprises contain investments with U.S. capital and six are invested in by Japanese investors. One European and one other country have joint ventures with China.

3. Proportion of Shares in Enterprises

There are 22 enterprises (64.7 percent) in which the Chinese side is the major shareholder, and there are 4 enterprises (11.8 percent) in which China is a minority shareholder. There are 8 enterprises (23.5 percent) in which both the Chinese side and foreign investors have equal shares in the enterprise.

4. Business Set-up Date

Among these enterprises, two-thirds were approved to be set up in the last 2 years. Two were set up before 1980 and two in 1981 and 1982 (each contributing 5.9 percent). Six enterprises (17.6 percent) were set up in 1983, 14 enterprises (43.8 percent) in 1984, and 8 enterprises (23.5 percent) in 1985.

5. Number of Company Staff

At the end of September 1985, there were 18 enterprises (52.9 percent) which had less than 50 staff members, 13 enterprises (38.2 percent) had 51-200 staff members and 3 enterprises (8.8 percent) had more than 200.

6. Market Distribution

Among the enterprises investigated, 8 (23.5 percent) have not yet exported their products to the international market, 6 (14.7 percent) export all their products to foreign countries and Hong Kong, 4 (11.8 percent) export 90 percent of their products to foreign markets, and 5 export 50-90 percent of their products to foreign markets. Among the enterprises investigated, 15 of them are mainly for export trade. The majority, 19 of the enterprises are mainly for domestic trade.

In concluding, this group of enterprises which was investigated are mainly engaged in the manufacturing industry and they amount to 60 percent of the total. Most are young enterprises which have been operational for less than 2 years. Two-thirds are at the beginning stage; the majority are medium- and small-scale enterprises; the majority are formed with Hong Kong and Macao investments and they amount to 70 percent of the total, and they are greatly influenced by Chinese culture. Chinese managerial personnel play a dominant role in the management of the enterprises and about one-third of the enterprises have foreign general managers. In addition, about 60 percent of the enterprises are mainly geared to the domestic market and 20 percent have not yet exported their products. The basic situation of these enterprises has a close relationship to some of the characteristics of the organizational structure and operations of the enterprises to be discussed below.

II. Several Characteristics of the Organizational Structure

In order to explore the basic characteristics of the present organizational structure of the joint venture enterprises, the questionnaire queried enterprises in various areas. The organizational structure can in general be analyzed from the "horizontal level" and the "vertical level." To analyze the "horizontal level" is to investigate the horizontal division of departments of the organizational structure, the division of labor, and the coordination among the departments. To analyze the "vertical level" is to emphasize the investigations of the power of different levels of the vertical system of the organizational structure and how that power is divided, delegated, and controlled. This study has also explored the situation of the application of computers in the managerial departments of the enterprises.

A. Several Characteristics of the Organization of Joint Venture Enterprises

The highest decision making body of a joint venture enterprise is the board of directors. Among the 34 enterprises which were investigated, half of them (17 enterprises; 50 percent) have 3-5 people on the board; 11 enterprises (32.4 percent), nearly one-third have 6-7; and only 6 enterprises (17.6 percent), less than one-fifth have more than 8. Thus we can say that the

important decision making power is concentrated in the hands of a small number of people. This is similar to western enterprises.

Within the scope of the power authorized by the board of directors, the general manager represents the joint venture enterprise in external affairs, and internally he appoints or dismissed subordinate staff members and carries out other duties authorized by the board. At present, all of the enterprises which were investigated are employing the general manager responsibility system under the leadership of the board of directors. Most of the enterprises (23 enterprises (67.7 percent) have Chinese general managers. There are 6 enterprises (17.6 percent) which have not yet set up the post of deputy general manager, who is the assistant to the general manager. There are 14 enterprises (41.2 percent) which have only one deputy-general manager; 11 enterprises (32.4 percent) have 2 deputy-general managers, and only 3 enterprises (8.8 percent) have 3 deputy-general managers and no enterprise has more than 3 deputy-general managers. This is completely different from the common situation of state-run enterprises which have many deputy positions. Similarly, the various functional departments of these joint venture enterprises in general also do not have deputy positions. This helps us centralize the managerial power of various levels.

It can be seen from the research survey that the proportion of foreign investors' participation in the management of enterprises is very low and their participation is only concentrated in the high and middle levels (50 percent). There are 13 enterprises which are in a situation of "basic non-interference" from foreign investors.

In the area of foreign investors' participation in departmental management, there are 17 enterprises (28.3 percent) in which foreign investors participate in making planning decisions; 12 enterprises have foreign investors' participation in the management of the sales channels; 11 enterprises' foreign participation emphasizes financial control; 10 enterprises have foreign participation in technological management; and 7 other enterprises have foreign investors interfere in personnel arrangements.

B. Division of Managerial Departments

Among the 34 enterprises investigated, 22 already have organizational charts, 4 are formulating theirs and 8 enterprises have never thought about having a company organizational chart.

In establishing managerial departments, an absolute majority of the enterprises is based on the functional division of departments. They amount to 27 enterprises (79.4 percent). There are 2 enterprises and one enterprise which divide the departments according to products and areas respectively. There are 4 enterprises (11.8 percent) which employ a mix-system with various ways of dividing managerial departments.

As for the number of managerial departments, there are 11 enterprises (32.3 percent) which do not have any division of departments, or have only 1 or 2 departments (offices); there are also 11 enterprises which have 3 to 4 departments; there are 9 enterprises (26.5 percent) which have 5-6 departments, and

there are only 3 enterprises which have 7-8 departments. No enterprise has 9 or more departments. The establishment of these managerial departments of enterprises is obviously different from that of the administration organization of the sections and offices of state-run enterprises.

C. The Degree of the Division of Power and the Concentration of Power

From the situation of the vertical division of managerial levels, there are 5 enterprises (14.7 percent) which do not have vertical division of managerial levels. Most of the enterprises have 2 to 3 levels of management. These amount to 21 enterprises (61.8 percent). There are 5 enterprises which have 4 levels, 2 enterprises have 5 levels, and 1 enterprise which has 6 levels of management. The increase in the number of managerial levels in general follows the increase in the scale of the enterprise and the increase in the number of staff members and workers.

As for the managerial magnitude (management scale) of enterprises, there are 16 enterprises (47.1 percent) which have less than 6 to 7 people to be administered by the management. There are 18 enterprises which have to administer more than 7 people. They amount to 52.9 percent. There are 6 enterprises in which the management has to administer more than 21 people. They amount to 17.7 percent.

In making important decisions, about one-third of the enterprises have their important decisions made at high- and mid-levels. Other enterprises' important decisions are all made by the board of directors. None of these 34 enterprises involve all their managerial levels in making important decisions for the enterprise. However, the degree of influence of the management in making important decisions varies among different enterprises. On the basis of the 32 enterprises which answered this part of the questionnaire, the mid- and the lower-managerial levels of 14 enterprises (43.7 percent) have a great degree of influence in the enterprises' important decision making. There are 11 enterprises (34.4 percent) whose mid- and lower-managerial levels have little or almost no influence. The others have a moderate degree of influence.

D. The Application of Computers in Various Departments

In the present era of informationalization, the role of computers in the management of enterprises has become more important day by day. It is especially true for joint venture enterprises which have to face the international market. However, among the 32 enterprises which answered the questionnaire on the situation of the application of computers, only 3 (9.3 percent) of them stated that they have started using computers in individual departments. The others have not yet started using computers. Among the 20 enterprises which are preparing to install or have already installed computers, 5 (25 percent) use computers in financial management, 4 enterprises use computers for quality control, 5 enterprises introduced computers in the sales department, and 3 enterprises use computers for stock management and for the management of documents (some of the above are cases in which several departments of the same enterprise, at the same time, have already installed computers, or have already prepared to install computers).

As for the number of people in an enterprise who can use computers in management, and according to the results of the investigation, there is an absolute majority 26 enterprises (76.5 percent), in which nobody can master computer management. As for the proportion to the number of company staff, there are 3 enterprises (8.8 percent) which have 10 percent of their staff who can master computer management, 2 enterprises (5.9 percent) have 10-40 percent who can master computer management, and there are only 2 enterprises in which more than half of the staff who can master computer management.

III. Planning, Control, Incentives, and Readjustment

A. Planning, Control and Incentives

The long-term planning of an enterprises is an important means to achieve its targets. Among the 34 enterprises investigated, 32 answered whether the companies formulated annual plans. There are 18 enterprises ([figure indistint] percent) which already have formulated annual plans, and there are 6 enterprises (8.8 percent) which are formulating their annual plans. These two categories amount to three-fourths of the enterprises. Eight enterprises think that annual planning is unnecessary or impossible to formulate and hence they have not yet formulated any annual plans. These enterprises amount to one-fourth of the 32 enterprises.

Among the enterprises investigated, 3 have not established targets for the inspection and control of planning or a control system. Fifteen enterprises (23 percent) have financial budget control targets, 22 enterprises (34.9 percent) have profit targets, 10 enterprises (15.9 percent) have sales volume targets, 8 enterprises (12.7 percent) have labor-productivity targets, 7 enterprises (11 percent) have targets on the value of foreign exchange earned through exports, and 1 enterprise (1.6 percent) has other targets.

Among the enterprises investigated, 24 use the spiritual-incentive method to motivate the staff and workers, 8 enterprises have not yet adopted this method, and 2 enterprises have not answered. This study found that two-thirds of the enterprises have achieved effective results through the spiritual-incentive method, while the other enterprises have only achieved ordinary results. On the other hand, nearly one-fifth of the enterprises have effectively motivated the staff members and workers through the material-incentive method. The results are apparently better than those of the spiritual method. Forty-five percent of the enterprises achieved effective results through the material-incentive method, while other enterprises only achieved general results. Among the enterprises investigated, none of them consider material incentives ineffective. The above results illustrate that when the incentive method is used in the correct way, and when the material incentive and the spiritual incentive are well-combined, the effectiveness of the positive motivation of the staff members and workers can be achieved.

B. Readjustment and Changes in the Organization of Enterprises

The organization of an enterprise should be flexible and should have strong adaptability so that the enterprise can adapt to the changes in the international and in the domestic situation. Among the 34 enterprises investigated, only 8 (23.5 percent) have not changed their organizational structure since

their businesses were set up, half of the enterprises (17 enterprises) have often made small readjustments. Even though there are frequent readjustments because of differences in the concrete situation (different social systems, different countries, nationalities, etc.) between the Chinese side and the foreign investors, there are still, at present, 14 enterprises which have problems in their enterprises' organizational structure and these problems still have to be solved. Some enterprises have encountered new problems during the process of problem-solving. These new problems need to be readjusted and resolved.

As for the causes of organizational readjustment, 8 enterprises (20.0 percent) readjusted for expansion purposes, 15 enterprises (37.5 percent) readjusted for management reform or streamlining their structure, 2 enterprises had to readjust because of the condensation of their enterprises, 7 enterprises readjusted to a change managing leaders or shareholders. Seven enterprises are requesting the readjustment of their organizational structure since their products have to be changed and their business has to be readjusted, and for other reasons as well.

IV. Efficacy and Problems in Organizational Operations

A. Efficacy of the Operations and Economic Efficiency of the Organization of Enterprises

Among the 34 enterprises investigated, with the exception of 1 enterprise which has not answered, 19 of the 33 enterprises, about 60 percent, consider that they have achieved basic success or great success, 8 enterprises (24.2 percent) think that their achievements are ordinary or that they are difficult to access. Six enterprises (18.2 percent) are not successful or basically have failed.

The products of the joint venture enterprises should be mainly for export. This requires the organizational structure of enterprises to have strong sales functions. At present, the situation of enterprise sales channel operations investigated is 12 enterprises, about 40 percent, have very smooth and smooth sales channels, 7 enterprises (21.9 percent) have just formed their sales channels, and 13 enterprises have difficulties and crisis in sales.

The results of the interviews on the economic efficiency measured by profit targets conform to the above-mentioned operational efficacy of the enterprises. In other words, those enterprises with smoothly operating organizational structures have high economic efficiency, and reach or exceed their profit-targets; otherwise, the planned targets cannot be fulfilled or the enterprises incur losses.

On the situation of foreign exchange (the investigation is based on 1984 figures and for companies set up in 1985 the data are estimates, among the 34 enterprises investigated, 8 (23.5 percent) have earned foreign exchange; 15 (44.1 percent) have achieved a balance between foreign exchange payments and receipts, 11, more than 30 percent, have incurred foreign exchange deficit. From this situation we can see that it is not easy to fulfill the requirement that every joint venture enterprise earn surplus exchange.

B. Organizational Problems

On the subject of organizational problems, there are 10 enterprises which have no problems, and 10 enterprises have not yet encountered problems. These amount to about 60 percent of the enterprises investigated. There are 14 enterprises (41.2 percent) which have problems. On the causes of the problems, about 40 percent of the enterprises believe that the problems are due to the unclear definition of the scope of power of the organization; 3 enterprises think that the cause is "insufficient consultation"; 3 enterprises say that the problems are due to the fact that "foreign investors do not understand enough; and 3 enterprises think that the problems are due to "not enough mutual understanding." One enterprise thinks that "the Chinese side does not understand enough."

V. Conclusion

In recent years, although the Sino-foreign joint venture enterprises have taken a step forward, they are still at the beginning stage of establishment and lack experience. At present, there is limited research on the joint venture enterprises, and there are even fewer studies on the microeconomic aspects. There have been no studies at all on the organizational structure of enterprises. This evidential study is a preliminary exploration, and there are still some questions which have to be further explored. Moreover, the research objects of this questionnaire are the person-in-charge of the Chinese side. It would be more comprehensive if the persons-in-charge of the foreign party could be interviewed together with the Chinese persons-in-charge.

According to the research results, not all of the joint venture enterprises are completely successful. This is to be expected since the two sides of the joint venture enterprises come from different countries, nationalities, systems, and regions, and consequently, there are differences between them in their cultural backgrounds, customs, and habits. It is normal for some conflicts and mistakes to appear. The question is how to reduce and solve the conflicts through the experience of management and administration, and to raise the successful rate of joint venture enterprises. To understand the operations and the characteristics of the organizational structure of enterprises is an essential element in solving these conflicts.

On the basis of the study above, there are two implications that are worth mentioning. When compared to state-run enterprises, the characteristics of the organizational structure of joint venture enterprises in general have "four features." They have greater independence, more flexibility, stronger adaptability, and more emphasis on efficiency. These features are determined and required by the characteristics of the joint venture enterprises. The organizational structure of joint venture enterprises should strive to fulfill these requirements. Moreover, the joint venture enterprises can learn lessons from, and consult the experience of the management reforms of enterprises which are being conducted in China.

Second, the proportion of foreign managerial staff is very low. Three-fourths of the enterprises have a proportion of less than 10 percent of foreign managerial staff to the total number of managerial staff, and 60 percent of the enterprises have foreign investors under a situation of "basic non-interference." This situation is inconsistent with the aim of learning the advanced management experience of foreign countries through joint venture enterprises. Therefore, it is necessary to raise suitably the proportion of foreign managerial staff in this type of enterprise, and use this as a way to increase mutual understanding, to learn from each other, and to learn from others' strong points to offset one's weaknesses. Moreover, it is only through cooperation at work that comparisons among different management methods can be carried out, and advanced management experience suitable to China's situation can be learned.

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CSO: 4006/788

SHENZHEN OFFERS SPECIAL RATES FOR INVESTORS

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[Text] Shenzhen (CEI)--The fees for the use of land in the Shenzhen special economic zone (sez) range from 20 fen to 1.6 yuan (about five to 43 U.S. cents) per square meters, much lower than the maximum three yuan for foreign investors elsewhere in China as stipulated by the State Council.

Foreign-invested enterprises in the sez which are still undergoing land development or capital construction can pay the land fee at a reduced rate of 30 percent over three years. After three years, they may be exempted from taxes. Enterprises with advanced technology may have land fees waived for five years, and only pay such fees at a 50 percent discount thereafter. Enterprises with especially advanced technology may be declared exempt from land fees for longer periods of time.

All foreign investors in Shenzhen are exempt from income tax on profits they remit home, a privilege only granted to export-oriented enterprises and enterprises with advanced technology elsewhere in China.

Foreign investors in Shenzhen using their profits to reinvest in export-oriented businesses or businesses with advanced technology are entitled to tax rebates. Investors who use their profits to reinvest in businesses that are not export-oriented or using advanced technology may receive up to 40 percent in tax rebates.

According to stipulations of the State Council, foreign-invested enterprises in the sez get three years longer (a total of six) than similar enterprises elsewhere in China to enjoy reduced rates of income tax.

Besides, after the period for reduction or exemption of taxes is over, businesses whose export volume exceeds 70 percent of the output value for the year can pay income tax at a reduced rate of 10 percent; but in other areas the reduction rate is 50 percent.

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TIANJIN'S SUCCESS WITH JOINT VENTURES

Beijing JINGJI GONGZUO TONGXUN [ECONOMIC WORK NEWSLETTER] in Chinese No 24, 30 Dec 86 pp 17-19

[Article by Miao Changchun [5379 7022 2504] and Yu Kun [0060 7046] of the Investigations and Research Office of the Tianjin Committee of Foreign Economic Relations and Trade: "Perfect External Conditions and Actively Set Up Joint Ventures"]

[Text] Setting up Sino-foreign joint ventures is one important method by which Tianjin utilizes foreign funds and imports advanced technologies and management techniques. From the time of the establishment of the first Sino-foreign joint venture in 1980 until the end of October of this year, Tianjin has entered into agreements for 174 joint venture projects (including 4 Sino-foreign contractual joint ventures) with 13 countries and regions; these projects are valued at \$578 million, \$280 million, or 48 percent, of which represent investments by foreign participants. By the end of October, 76 (including 5 in the Economic and Technological Development Zone) of these enterprises have officially begun operations. Most of these projects are in the industrial, commercial and service areas: there are 87 industrial projects, comprising 31.28 percent of all investments, and 46 commerce and service projects, representing 51.86 percent. Some economic indices of the 68 enterprises already in operation are as follows: 186 million yuan in total output value; 250 million yuan in total sales, with 50 million yuan in total profit: the sales to profit ratio is 20.2 percent; a foreign exchange surplus of \$608,000, and a month-end account balance of \$12.67 million in book value.

I

The characteristics of the structure, business administrations, and economic results of Tianjin's Sino-foreign joint venture projects are:

1. Rising trend of manufacturing-type projects: traditionally, Tianjin has been China's industrial base; it has strong industrial background and technological capabilities, and has the ability to absorb and digest foreign advanced technologies. Therefore, development of manufacturing-type projects is emphasized in Tianjin's joint ventures. Among the 174 projects contracted before October of this year, 106, or more than 60 percent, are manufacturing-type projects.

2. Good economic results shown by the Sino-foreign joint ventures already in operation, with the industrial-type projects being especially profitable: economics figures of the 68 enterprises already in operation show that total sales of the 27 industrial enterprises alone amount to 175.69 million yuan, which represents 70.6 percent of the total; their total profit is 45.91 million yuan, or 91.5 percent of the profits of all 68 enterprises in operation, with a sales to profit ratio of 26.13 percent.

3. Foreign exchange surpluses: in setting up joint ventures Tianjin has always insisted that enterprises be export-oriented and earning foreign currencies: from project negotiation to feasibility studies and to final approval, any export-oriented project which earns foreign currency will have the whole-hearted support of all departments in the city, from top to bottom.

4. Importation of advanced technologies and scientific management techniques: for example, the Tianjin Elevator Plant has been in business for 40 years; it began exporting its products in the 1960's, and at its peak it exported 100 units per year. In the late 1970's it began to fall behind technologically and was forced to drop out of the market in Hong Kong. In 1985 it entered into total joint venture operation with America's Otis Company, and in the second half of that year it began production of two late model JIOALIU DIANBIAN elevators, both are the Otis Company's products of the 1980's, and in July of this year the company returned to the Hong Kong market.

II

Tianjin's success in utilizing foreign capital to set up joint ventures which obtained good results within a relatively short period of time is attributable to the municipality's efforts in creating a good investment environment:

1. The leaders and the departments in charge have one unanimous understanding: joint ventures must make money for the foreign investors, this is the first rule; only if the foreign investors make a profit can the joint ventures make a profit; only by selling the products overseas can the foreign investors make a profit, and only then can the cooperation be strengthened, and grow.

2. In conducting feasibility studies for the projects, emphasize industries, advanced technologies, and exports, and maintain the principle of "short, level and speedy" to save time, get by with standard technique, and get quick economic results, rather than pursue large or high-tech projects.

3. Serve the joint ventures sincerely and help them solve problems: in order to help the joint ventures solve problems they may encounter in production or operation, Tianjin Municipality's Committee on Foreign Economic Relations and Trade specifically set up a "Foreign Funded Enterprise Management Bureau" responsible for solving joint venture problems. That bureau has established a joint session system which holds monthly meetings to receive management reports from the joint ventures and to discuss solutions to problems and settle minor disputes.

Nevertheless, many imperfections remain in Tianjin's investment environment, and the municipal management departments are actively making improvements and striving to do a even better job in utilizing foreign funds:

1. Refrain from interfering with joint venture operations: first, because party organizations within the joint venture enterprises are not adapted to the new situation and still run those enterprises as if they were state-owned enterprises the normal activities of the joint ventures are being affected. The relevant departments in the municipal party committee, therefore, are looking into new approaches and making changes concerning the assignment of responsible personnel in the joint venture enterprises and the activities of the party organizations, and so on, to cut down on unnecessary interventions, and let party members play their proper role in enterprises. Secondly, there are too many "grandmothers" hovering over the joint ventures, that is, there are too many administrative interventions which prevent the enterprise's board of directors from exercising its power: for example, superordinate organs often assign cadres to the enterprise directly, which is in violation of the joint venture law, and therefore Tianjin plans to train the leading cadres to unify their ideologies, and let them learn and truly understand the meaning of opening up to the outside world and utilizing foreign funds, and use their basic knowledge on foreign economics and trade to implement China's joint venture law conscientiously to protect the legitimate rights of the board of directors and guarantee the normal operations of the joint ventures.

2. Define the joint venture's rights to hire workers, set wage standards, and reward and discipline workers: as yet joint ventures in Tianjin do not actually have the right to make these decisions. Many enterprises would like to hire better workers through advertising, and would like to see the board of directors have the right to determine how to pay workers their wages as well as their supplementary pays. Accordingly, the municipal government of Tianjin will take practical steps and issue detail rules and regulations based on Article 22 of the State Council's newly issued Provisions For the Encouragement of Foreign Investments, and look into the possibilities of setting up labor services companies, labor insurance companies, and labor dispute arbitration committees to promptly rectify conditions which do not suit the development of joint ventures.

3. Because joint venture projects usually take a long time to be examined and approved, and the process is complicated, and because there is a shortage of many materials and resources in this country, the municipal government is actively making preparations to set up a Joint Venture Material Supply Company and a Foreign Investment Service Center. These companies will offer a full line of services in supplying raw materials. The finance, insurance, commodity inspection, taxation and customs and other relevant departments will work together to increase efficiency and cut down on paperwork, and provide a "microclimate" more suited to the survival of joint ventures.

In short, Tianjin has achieved pleasing results in its utilization of foreign funds, but at the same time much remains to be done to create an ideal environment to attract foreign investments. Tianjin is doing its best to improve its investment environment and quicken its pace in utilizing foreign funds to expedite its transformation into an "export-oriented, overseas-oriented and light processing industry-oriented port city."

OPERATION OF MARKET ECONOMY FOR AGRICULTURAL COMMODITIES

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese
No 2, 23 Feb 87 pp 19-23

[Article by Diao Xinshen [0431 2450 3947] and Lu Mai [4151 6701], Development Institute, State Council Agricultural Research Center: "Decentralization of Decisionmaking, Reform of State-owned Enterprises, and Government Intervention-- A Further Understanding of In-depth Reform of the Agricultural Products Circulation System"]

[Text] Currently only a few agricultural products, namely grain, cotton, and oil-bearing crops are partially or completely covered by state centralized procurement and marketing, and by uniformly set prices. For numerous agricultural products, procurement and marketing as well as prices have been substantially loosened; there has been a reduction of procurement links and of some marketing links for some agricultural products; and the centralized state procurement and marketing system for some agricultural products has been transformed into a multiple procurement and marketing system in which provinces have the main role.

The phasing out of centralized procurement and marketing has given agricultural producers the power and the motivation to organize their production and to adjust the mix of their production on the basis of market prices and their own capabilities for a general rise in output of agricultural products and the beginning of an improvement in quality.

Accompanying the rich array of products in markets has been a marked increase in the selection available to consumers and the degree of their satisfaction. The need to line up and present coupons for commodities such as poultry, fresh eggs and aquatic products, for which demand was greater than supply for many years, has virtually disappeared nowadays. Consumers' ability to pay market prices has correspondingly increased as well.

Diversification of the main body of circulation and of procurement and marketing methods has demolished the long-standing situation of dealings by state-owned businesses alone, and has brought outside pressure for reform to bear on them. Commercial organizations under various kinds of ownership have begun to appear, and their role in circulation is gradually gaining strength.

The role of markets has placed higher demands on central and local government management of the economy. Governments at all levels are actively exploring management methods that are compatible with commercial economic requirements. They have also summarized some of their preliminary experiences and have created some fairly successful methods.

I

Reform of the centralized procurement and marketing system for agricultural products was a rational outgrowth of rural institution of output-related family contract responsibility systems. Responsibility systems brought about an all-around increase in output of all kinds of agricultural products; however, obstructions in the commodity circulation system made more serious the dislocations between supply and social demand for quite a few agricultural products. For various agricultural products including grain, cotton, hemp, hogs, tea, rabbit fur and Chinese medicinal herbs, both peasants and state-owned businesses repeatedly experienced both "difficulty in selling and difficulty in buying." With the advent of the new contract responsibility system, profound conflicts were generated between supply and demand of agricultural products and with the old administrative distribution system.

We have an understanding of the method by which price laws play a role; we have experiences from some provinces and regions that relaxed prices for fresh fish and fruits have increased output; and we have the impact of benefits from the lightening of burdens on the state treasury. However, reform of a supply and marketing system that had been practiced for 30 years produced irritation for producers, consumers, dealers and government controllers alike. Difficulties in reforming the supply and marketing of large quantities of agricultural products proved greater than expected.

The first difficulty in reform was the high degree of consumption and material benefits to which cities had become accustomed and their low ability to stand price rises.

Grain, hogs and vegetables are staples consumed by the people in China that account for more than 30 percent of urban residents' consumption expenditures. On the other hand, the consumption psychology produced as a result of long-standing low prices and low wages persisted after wages had been raised greatly, with the result that urban consumers' psychological and economic ability to withstand a rapid rise in prices was very weak. In some large cities in which sale prices for agricultural goods had not yet been completely loosened, retail prices for hogs and fresh vegetables in 1985 rose 30 percent and 47 percent, respectively, over 1984. The excessive rise in the price of necessities aroused consumer dissatisfaction, and in many prefectures and cities controls had to be reimposed on prices and commodities. In 1985, the state gave consumers more than 5 billion yuan in "open subsidies" while reducing by only somewhat more than 200 million yuan its "hidden subsidies" for the circulation of commodities. Subsidies paid out of public funds increased rather than decreased.

The second difficulty in reform was a low degree of peasant organization, slight elasticity in demand for principal agricultural products, and excessive market risks.

Elasticity of supply and demand for different agricultural products varies. Production of staple agricultural products is a traditional industry in China's agriculture that is not substantially limited by locale, technology, or capital. So long as the price is fairly high, production can rise very rapidly. However, demand for most of these kinds of products is relatively consistent and not greatly affected by prices and income. The nature of supply and demand makes both production and prices very prone to cyclical fluctuations. In 1985 when procurement prices for live hogs were first relaxed, procurement prices rose more than 30 percent; the number of hogs removed from inventory for the whole year rose 8 percent; and the number of head remaining in inventory at the end of the year rose 8 percent. Both the speed of increase in the amount of social retail sales and the amount of consumption per capita for the same period were lower than the increase in output at 3.4 and 7.5 percent, respectively. In addition, increase in consumption in places of concentrated consumption, such as large cities, was far slower than the rise in rural output. As a result, during the last half of 1986, removal of hogs from inventory became difficult and prices fell again. In some provinces, they fell to the pre-relaxation price. Even though industrial enterprises were the consumers of jute and ambari hemp, ramie and rabbit fur, sales were limited by demand from the ultimate consumers, so there was similarly little elasticity in demand and great elasticity in supply, which made for cyclical fluctuations. Stimulated by high prices in 1985, output of jute and ambari hemp increased 1.76-fold over 1984 reaching 4.12 million tons. However, domestic hemp spinning capacity and exports required only between 700,000 and 800,000 tons. Consequently, in view of the 600,000-ton increase in reserves on hand in the country, a large amount of the hemp could not be sold and the peasants had no choice but to burn it for fuel. As a result, the area sown to hemp fell from 14 million mu in 1985 to 5 million mu in 1986.

China has millions and millions of peasants, but the scope of production is narrow; farming operations are extremely scattered; and ability to bear market risks is poor. There is no peasant cooperative economic organization for the joint shouldering of risks and sharing of benefits. The state is hard put to establish a stable link to markets. Frequent changes in supply and demand inevitably hurt peasant investment in agriculture, which increases the degree of fluctuation in supply and demand and raises the price level necessary to restore balance between supply and demand.

The third difficulty in reform was the huge size of the state-owned business system, which made self-reform difficult, and which made fairly difficult the development and growth of a new business system of a certain size and strength.

As a result of the long history of centralized procurement and centralized marketing of staple agricultural products, the existing state-owned business system was fairly well developed in this area. It had overlapping organizations; it was overstaffed; and costs for the circulation of commodities were high. Following the loosening of markets, the state owned business system had neither the flexibility in operations of small peddlers nor the economic capabilities of stable markets associated with large businesses. As a result, it rapidly lost its existing market share, and found it difficult to react positively to market fluctuations. It could only continue to exist with subsidies from public funds. As a result of the loosening of pork sales in 1985, the amount of business done by the state-owned food system slipped from the 80 percent of 1984 to 52.3 percent in terms of market circulation volume. Nevertheless, it would not reduce personnel; large amounts of its facilities lay idle; costs mounted, and state subsidies increased.

The organizational system, the management methods and the business style that had long endured in the huge state-owned business system were difficult to change, and formation of a new style large business organization to meet market requirements was also difficult. At first, commercial activity of a speculative nature and small scale, unregulated market transactions coexisted with the state-owned system. As a result, the market was for a long time unable to establish a stable order. Many people competed for agricultural products that sold well in markets, while no one was interested in slack-selling items. The proneness to change of supply and marketing relationships and the lack of a stable mechanism intensified market fluctuations.

The fourth difficulty in reform was the large responsibility carried by government at all levels, but the small ability to bear responsibility.

Abolition of centralized procurement and marketing did not mean the simultaneous abolition of government-controlled economy, but rather a fundamental change in the methods and means of controlling the economy. Because of the special requirements for production and consumption of agricultural products and the non-development of markets created by the former system, the responsibility for market regulation borne by government at all levels became greater, and the difficulty of performing this function also increased. However, as a result of the restrictions on progress in reform in other regards and the limitations resulting from lack of experience during the early stages, government at all levels both lacked effective means of intervening and was also unable to find an operating body on whom it could rely to carry out this function. The lack of consistency in interests between one prefecture and another and between cities and rural villages also frequently impaired local government policy decisions and choices. Various intervention actions taken on the basis of partial interests and short-range arrangements also hurt overall economic interests and were extremely bad for market development.

The foregoing difficulties in reform show reform of the circulation system for grains, hogs and vegetables to be different from reform of the circulation system for fresh fish. The latter requires great elasticity. It represents a small percentage of residents' consumption; possibilities are great that high prices may attract competitors into markets; and formation of a new market situation is fairly easy. With grain, hogs and vegetables, however, formation of a new market situation is fairly difficult. If one says that reform of the system for the circulation of fresh fish, melons and fruits is at the dawn of victory, then reform of the system for circulation of grains, hogs and vegetables is only at an impasse. There is no means of retreat, and maintenance of the status quo causes us to lose the advantages of low prices stability that we enjoyed under the centralized assigned procurement system without attaining the benefits of a reduction in subsidies brought about by market regulation. This anomalous situation has the dual disadvantages of an ossification of supply and demand and rising prices.

II

Practice in reform during the past year has demonstrated that the significance of reform of the circulation system for farm product staples is not limited only to loosening, but also entails the dual task of how to carry out market organization and intervention simultaneous with formation of a market regulatory mechanism.

Future reform may continue to be carried forward in the following three ways:

1. Discrete Advance and Decentralized Decisionmaking

Grain, cotton, and oil-bearing crops are important farm products that have a bearing on the national economy and the people's livelihood for which a market circulation method suited to China's circumstances is currently still being explored. In order to reduce risks when making reforms in this regard, action should be taken gradually only after a certain amount of successful experience has been gained in reform of the circulation system for other agricultural products with similar characteristics.

Since hemp and wool are raw materials for industrial production, reforms will not only have an effect on the welfare of peasants and consumers but also may hurt the redistribution among areas of industrial and commercial profits and further damage local public revenues. Failure to coordinate mutual interests is a major reason why reform measures already adopted cannot be put into practice. Looked at in terms of a common sharing of risks and enjoyment of benefits, closer contacts of many kinds among those engaged in production, management and processing holds major significance for further reform. There has to be planned organization of industrial processing enterprises and agricultural producers, as well as of the businesses that act on their behalf, for the establishment of various kinds of societies, intergovernment conferences between provinces that produce raw materials and provinces that consume raw materials, joint research on problems, and attainment of the goal of stabilizing markets through stabilization of interest relationships.

-- Hogs and vegetables are basic nonstaple foods for urban residents. Since different areas have made different amounts of progress in reform, and since the ability of residents of different cities to bear market prices differs, individual areas have taken different actions for the reform of this category of commodities. Decentralized decisionmaking on the basis of actual circumstances remains the principle to be followed in making further reforms.

-- It is very necessary for exceptionally large cities that have not gone through a dual-track stage in the vegetable circulation system to practice a dual-track system for a time; however, the market-control portion should not be too small. Rather, conscious use should be made of the market-regulation portion to develop the various organizational forms and operating methods required for development of market circulation, to toughen the ability of producers and consumers to adapt to markets, to foster an ability among state-owned business enterprises to take part in market activities, and to improve government measures for intervention in and regulation of markets.

Twenty-eight percent of the country's hog consumption is concentrated in cities, so a stable supply and marketing relationship between producing provinces and large cities is the key to overall market stability. Simultaneous with primary reliance on market regulation by small local markets below the county level and by small cities, large cities should establish needed frozen meat storage facilities, using peripheral regulation and adjustments between slack and peak production seasons to stabilize demand markets. They should also use partnerships, cooperation, and long-term contracts to structure and centralize in a planned way the more fixed procurement and marketing relationships in producing areas, thereby stabilizing the market and reducing business risks for peasants that results from their distance from markets or the not very good transmission of information to them.

2. Reform of the State-Owned System and Acceleration of Market Development

-- In the absence of an inherently stable mechanism created by the main body of market activity on which the government can rely when necessary, it is very difficult to moderate market fluctuations when effecting control over the market circulation of agricultural products. Use of reform and a breaking down of the state-owned business system as a point of departure can make it possible to phase in a main body for control. Under the centralized procurement and centralized marketing system, state-owned businesses always discharged the function of insuring supplies and stabilizing markets; however, in a situation in which this vertical system has now collapsed and in which horizontal links have not yet developed much, from the standpoint of the system as a whole, it is very unrealistic to emphasize the dual function of state-owned businesses. It is necessary to begin with the disintegration of the organizational system to carry out the dissolution of functions, concentrating the function of stabilizing markets in the hands of a few large provincial and municipal wholesalers. Guangdong Province's experience suggest a division of two kinds of subsidies. One is for losses brought about by the management expenses of companies themselves and the overly high circulation

expenses of wholesaling units for which the contracting of fixed quota subsidies should be instituted, recognizing the economic burden that the old system created for state-owned companies. The second is subsidies related to restricted prices or to storage expenses. This is government intervention in markets and an intervention technique. This is the only way in which it can genuinely exercise the function of stabilizing markets. Other small wholesale and retail enterprises, largely as a result of reform of the enterprise system, can then become commercial organizations truly responsible for their own profits and losses that assume only business functions.

— For a very long time to come, China's overly large agricultural population will find a shift into other industries a very arduous task. Transportation of agricultural commodities for sale on a small scale is the easiest way for peasants to enter the circulation realm. However, the modernization of China's exceptionally large cities has long since surpassed the development stage of decentralized production and small-scale transportation for sale of agricultural commodities; consequently this form of circulation will encounter obstacles in many regards in large cities in the form of traffic control, environmental sanitation, and marketing sites. Simultaneous with encouraging peasants to go into cities, there will have to be the building of wholesale markets and the development of a service system for financing, storage and transportation, eating and sleeping in order to attract more peasants to city markets, gradually increasing the orderliness and degree of organization of markets. Grassroots-level peasant cooperative organizations will have to be developed for procurement and marketing, for storage and transportation, and for the dissemination of skills so that peasants enter markets in an organized way. Herein lies the key to overcoming in a fundamental way the conflict between small-scale production and large markets. Quite a few very good organizational forms have appeared everywhere; however, in an overall sense, they have spread slowly and the scale of organization is small. One of the main reasons for this has been that governments at all levels, and particularly governmental organizations at the grassroots level, still lack full awareness. The experiences of Japan and of very many developing countries shows that large peasant cooperative organizations must rely on governments to take the initiative in providing organization and support. Governments at all levels have to give vigorous encouragement and support to various organizations that the peasants have spontaneously established, at the same time providing preferential treatment in various ways and genuinely doing one or two good things for the peasants to make the peasants realize the advantages to be gained from organizing.

3. Strengthening of Government Intervention and Increasing the Degree of Market Organization

China is currently in process of shifting from an old to a new system, so the degree of importance and the degree of complexity of government intervention in markets is much higher than for market economy countries in general, while at the same time, the ability to intervene and the techniques used for intervention have to be explored and developed through practice. This requires that governments at all levels devote serious attention to this matter and dare

to innovate boldly, constantly accumulate experiences, summarize lessons, and gradually establish a multilevel central government, provincial, and municipal government intervention system that is in keeping with conditions in China.

-- In a centralized planning system, the role of China's statistical system in the operation of the society and the economy is extremely limited and one-sided. The original system has to be reformed now as operation of the market warrants. It is particularly necessary to perfect the systems for monitoring and forecasting changes in supply and demand and market price movements, to reform forecasting methods, to establish analysis and research organizations, and to develop channels for dissemination of market information.

-- In a market situation in which there are numerous uncertainties, the government must possess the economic strength necessary to intervene in market fluctuations, the better to make use of the role of government financial subsidies, establish equitable commodity reserves, open new sources of funds, and fashion a regular intervention fund and an organizational structure that corresponds to the intervention methods applied.

-- Market activity that follows a random course is a reflection of a pre-existing backward state of markets. Building of regulations and a legal system for markets, including a system for policing property and business ethics in the wholesale realm, rules and regulations to meet commodity inspection requirements, etc. is a fundamental guarantee for the regularization of market activities and for reducing speculative business activities that make for market instability.

-- Since the agricultural production cycle is fairly long, under a system of market regulation, it is necessary to continue to guide production and commodity circulation in a planned way in order to improve the quality of work done by functional agricultural and commercial departments. Readjustment of organization and function as production and commodity circulation under market regulation warrants, and the gradual building of genuinely workable development, monitoring, control, and regulatory plans is, from a long-range standpoint, absolutely necessary for stable economic development.

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